2020 STATE OF HOUSING IN BLACK AMERICA:

Challenges Facing Black Homeowners and Homebuyers During the COVID–19 Pandemic and An Agenda For Public Policy

Vanessa Gail Perry Ph.D

and Michelle Aronowitz, Jung Choi, Edward Golding, Morgan Green, Richard Green, Maurice Jourdain-Earl, Ashlyn A, Nelson, Lisa Rice, Lauren Rhue

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With Message by

Donnell Williams, President, National Association of Real Estate Brokers
www.nareb.com/shiba

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ABOUT THE NATIONAL ASSOCIATION OF REAL ESTATE BROKERS

NAREB was founded in Tampa, Florida, in 1947 as an equal opportunity and civil rights advocacy organization for African American real estate professionals, consumers, and communities in the United States. Our purpose remains the same today, but we are more focused on economic opportunity than civil rights. Although composed principally of African Americans, the REALTIST® organization embraces all qualified real estate practitioners who are committed to achieving our vision, which is "Democracy in Housing."

ABOUT THE AUTHOR

Vanessa Gail Perry, MBA, Ph.D. is a Professor of Marketing, Strategic Management and Public Policy at the George Washington University School of Business.

Disclaimers

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MESSAGE from the PRESIDENT

On behalf of the National Association of Real Estate Brokers, Inc. (NAREB), I am honored to present the 2020 edition of the State of Housing in Black America (SHIBA) report. Since the first issue published in 2013, NAREB has remained committed to documenting the disparities, to analyzing the results, and to recommending solutions that support the growth of Black homeownership.

It is NAREB's position that opportunities for homeownership exist despite ongoing challenges to the process. This 2020 report offers a comprehensive look not only at the systemic impediments to Black American dreams of homeownership but also the necessary public policy interventions and intricate mortgage market adjustments needed to build Black wealth through homeownership.

We provide insights into the everyday experiences of a Black homebuyer pursuing wealth through homeownership—from the historical barriers that result in Black mortgage applicants being twice as likely to have their applications rejected, to current credit score practices and piloted models that may skew, or even widen, the gap between Black and non-Hispanic White borrowers.

NAREB remains mindful of the COVID-19 pandemic and its impact on the lives of all Americans. We all have had to pivot and call upon our brand of resourcefulness to sustain our health and our livelihoods with an eye toward a more empowered and enriched future. Our confidence remains strong as Black homeownership rates increased by nearly seven percentage points from the second quarter of 2019 (40.6%) to the close of the second quarter of 2020 (47%). We recognize and always consider the obstacles to Black Americans pursuing ownership; however, our indomitable spirit and collective strength enable us to overcome barriers and deterrents.

You have a vital role to play in this move towards progress. As you read this report, please identify areas where your expertise and interest can be called upon to build Black wealth through homeownership. Additionally, please share this report with your colleagues, friends, or constituents and help share our strategic direction to Educate …Empower… Mobilize, so that Black homeownership rates can continue to rise.

Sincere thanks are extended to the principal author of NAREB's 2020 edition of the State of Housing in Black America report (SHIBA), Vanessa Gail Perry, PhD., Professor of Marketing, Strategic Management and Public Policy at the George Washington University School of Business. The complexities of the home purchase and mortgage arenas are insightfully presented for a more fulsome understanding of the multiple hurdles that are too often encountered by Black home purchasers. We continue to evolve and communicate the process of laying the groundwork needed to attain Democracy in Housing. Thank you for being part of our journey forward.

Donnell Williams

Donnell Williams
President
National Association of Real Estate Brokers, Inc.

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2020 STATE OF HOUSING IN BLACK AMERICA REPORT

EXECUTIVE SUMMARY

Homeownership enables families to build wealth, helps stabilize communities, and has been linked to access to educational, employment opportunities, increased safety as well as physical and mental health. The market for single-family homes and their financing are key components of a strong economy; the housing market also employs thousands of professionals as well as earnings for industry practitioners and returns for investors. Despite the emphasis on this aspect of the 'American Dream' in popular culture and among scholars and policymakers, Black and other minority families have faced many barriers to homeownership, most of which can be traced to cumulative disadvantage and structural inequalities. In the years since the 2008 crisis, homeownership opportunities for Black Americans had begun to take a promising turn. However, in early 2020, the onset of the COVID-19 pandemic very quickly began to threaten the lives, health, and economic viability of Black households across the U.S. This report presents the current state of homeownership for Black households in the U.S., market opportunities for Black homebuyers, key demographic and economic characteristics that differentiate Black homeowners, a profile of Black mortgage loan applicants and borrowers based on mortgage underwriting criteria, and recommendations for impactful public policy interventions.

ES-1 STATE OF HOMEOWNERSHIP IN BLACK AMERICA

Disparities in homeownership and access to credit contribute to cumulative wealth inequality. Black homeownership was 47 percent in 2020 and has yet to reach pre-2008 crisis levels.

According to the U.S. Census Bureau, in 2019 the homeownership rate was 42.1 percent for Black, 47.5 percent for Latinx, and 73.4 percent for White households. Census estimates for the second quarter of 2020 report that the Black homeownership rate of 47.0 percent, and 76.0 percent for non-Hispanic White households.

The Black-white homeownership gap in 2020 was 26 percentage points, only slightly lower than the 26.8 percentage point gap in 1960, before the passage of the 1968 Fair Housing Act.

Blacks are under-represented among owner households. The proportion of new Black homebuyers is less than half of the proportion of Black households in the U.S. (13 percent).

ES-1.1 Age

Homeownership rates are especially low for younger Black households. the Black-White homeownership gap is high across all age groups. The smallest gap is among those who are over age 65, which suggests that Blacks become homeowners later in life. Still, the homeownership rate is 62.4 percent for Blacks over age 65, relative to 81.4 percent for Whites in this age group. Homeownership rates for Black householders under age 35 are lower than rates for other groups.

ES-1.2 Gender

Blacks have a higher share of owner households headed by females than any other category of owner households. However, the gender gap in homeownership is negligible compared to other racial and ethnic groups.

ES-1.3 Education

Black homeowners are less likely to have a college degree.

The homeownership rate for Blacks who graduated from college is only 3.2 percentage points higher than that of White high school dropouts.

For Black college students, 86.4 percent have some form of student loan debt. Twenty-nine percent of 2015–16 bachelor's degree recipients graduated without debt, but only 14 percent of African American graduates were able to avoid student loans. Thirty-three percent of African American bachelor's degree recipients owe $40,000 or more in debt, compared with 18 percent of White graduates and 13 percent of Hispanic graduates.

ES-1.4 Income and Wealth

Racial gaps in income and wealth are considered primary drivers of the homeownership gap. The cumulative effects of these stark disparities manifest themselves in access to mortgage credit and homeownership opportunities. In 2018, the median income for Black households was 40 percent lower than the median for White households, and White households had a median net worth that was 10 times higher than the median net worth for Black households. The Federal Reserve reports that approximately 20 percent of Black households have zero or negative net worth, compared to 9 percent of White households[1].

ES-1.5 Geographic Location and House Prices

Where do Black homeowners live? The Black population in the U.S. is concentrated in major cities. Sixty-two percent of the Black population is concentrated in 20 MSAs. Homeownership rates range from 31.9 percent in Los Angeles to 49.8 percent in Richmond, VA. It is also worth noting that in 2019, 25.6 percent of the Black population resided in areas where the median house price is above that for the U.S.-- $253,000.[2]

Many of these metropolitan areas are highly segregated by race. In many cases, e.g. New York, Chicago, Detroit, St. Louis, Cleveland, greater homeownership gaps are accompanied by higher levels of segregation. Both median and mean house values of Black owners are lower than other racial/ethnic groups. Due to lower incomes and wealth levels and other credit constraints, Black homebuyers have less capacity to qualify for larger mortgage loans or more expensive homes.

There is considerable evidence from prior research that home values in predominantly Black neighborhoods tend to be lower than values in similarly situated neighborhoods with lower minority concentrations. The average home value was $ 350,194 for White new homebuyers and $255,878 for Black new homebuyers. Average home values for Black owners were 45 % lower than White-owned homes in 2018. Since the 2008 crisis, Black homeowners in all income categories are more likely to face negative house price appreciation.

Some of the most affordable MSAs include Baltimore, Detroit, St. Louis, Memphis, and Cleveland, yet these MSAs have Black homeownership rates that are at or below average. The Black-White homeownership gap is also relatively high in these MSAs.

ES-1.6 Market Opportunities

In 2019, approximately 472,000 home purchase mortgages were obtained by Black homebuyers, over $113 billion in home purchases. These figures represent a potential $6.8 billion in real estate

1 https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finances-20170927.htm

2 Median house prices provided by Clear Capital, https://www.kiplinger.com/article/real-estate/T010-C000-S002-home-price-changes-in-the-100-largest-metro-areas.html; 2020 Black Homeownership by MSA from U.S. Census; National Association of Home Builders-Wells Fargo Opportunity Index

commissions and significant opportunities for real estate professionals who serve these communities. Loan applications from and originations to Black homebuyers nearly doubled between 2018 and 2019; in addition, there was almost twice the number of loan applications and originations for Black borrowers in the South as there were in the West, Northeast, and Midwest regions combined.

Although Millennials have lower homeownership rates than previous cohorts and are delaying homebuying by 7 years or more, 89 percent of Millennials report intentions to become homeowners eventually. The highest concentrations of this demographic group reside in the Atlanta, DC, Dallas, and Miami metropolitan areas.

Approximately 17 percent of Black households nationwide had incomes over $110,000. These households tend to be concentrated in a relatively small number of metropolitan areas, e.g., the Washington, DC, and Atlanta areas.

According to Freddie Mac, as of 2019, there were approximately 2.9 million Black 'mortgage-ready' households in the U.S. These include potential homebuyers who are under 45 years of age, living in a geographically affordable area where there is an adequate supply of housing and who have the income and credit history to qualify.

ES-2 STATE OF THE MORTGAGE MARKET FOR BLACK BORROWERS

In this section, we highlight the key characteristics of the mortgage market for Black borrowers. Ten lenders were responsible for originating 24 percent of mortgage loans made to Black borrowers in 2019. The average Black homebuyer is between ages 35 and 44 and has a FICO score of 626. In addition, the average Black homebuyer obtains an FHA mortgage for $209,000, has a DTI ratio of 40 percent, a downpayment of 2.5 percent, and an income of $112,000. In the conventional market, Black homebuyers borrow an average of $236,000, put 5 percent down, have a DTI of 39 percent, and have an average income of $209,000.

ES-2.1 Loan Type

In 2018, 53 percent of Black mortgage borrowers obtained Federal Housing Administration (FHA) or Veterans Administration (VA) loans, compared to 23 percent of White borrowers. At the same time, 73.6 percent of White homebuyers obtained conventional loans, while 45 percent of Black homebuyers took out conventional mortgages.

Mortgage Loan Denials

Black applicants are more than twice as likely to have their applications rejected, and this has been the case consistently over time. Regardless of race or ethnicity, DTI and credit history are the most common reasons cited for loan rejection, although the proportions of rejections due to DTI and credit history are significantly higher for Black applicants. Also, Black applicants were less likely than White applicants to be rejected due to issues with the collateral or incomplete applications.

Interest Rates

According to an analysis of 2018 HMDA data, Black borrowers pay significantly higher rates for FHA and slightly higher rates for conventional mortgage loans. Disparities by borrower race matter more than those based on ethnicity alone. For example, in the case of FHA, Black non-Hispanic borrowers paid an average of 5.52 percent while Black Latinx borrowers were charged an average of 4.87 percent. White Latinx borrowers paid an average of 4.91 for an FHA loan, compared to 4.83 for White non-Latinx borrowers. For conventional loans, Black Non-Latinx borrowers and White Latinx borrowers also paid higher rates than White non-Latinx Borrowers.

Loan Size

For Black borrowers, the average single-family home purchase loan amount for Black and Black Hispanic borrowers in 2018 was $206,000 for FHA and $214,000 and $208,000, respectively for conventional originations. White FHA homebuyers borrowed on average $190,000 in FHA loans and $270,000 in conventional loans.

Income

In 2018, Black, Hispanic/Latinx FHA borrowers had an average annual income of $149,000 and Black non-Hispanic FHA borrowers had an annual income of $103,000. White non-Hispanic FHA borrowers had an average income of $140,000, while White Hispanic FHA borrowers' incomes were $167,000. Black conventional borrowers earn on average $65,000 a year more than Black borrowers in the FHA market. Black homebuyers and owners have lower incomes than their White counterparts.

Down Payments and LTV Ratios

Black homebuyers have higher LTVs on average, consistent with a higher proportion of FHA lending. The median downpayment amount for Black homebuyers is 3.5 percent-- which reflects the fact that approximately 53 percent of mortgages made to Black borrowers are FHA- or VA-insured. In contrast, the median downpayment amount for White homebuyers in 2018 was 10 %. Loans to Black borrowers are significantly more likely to have LTVs > 90%.

Credit Scores

Black borrowers are more likely to have missing FICO scores and credit history challenges due to cumulative economic disadvantage over time. Black borrowers have a median FICO score of 626; the median FICO score for White borrowers is 751.

Debt-to-Income Ratios

Because of lower-income profiles and debt obligations, Black and Hispanic homebuyers have higher DTI ratios on average than White homebuyers. For example, Black homebuyers pay an average of 41 % of monthly income to creditors compared to 37 percent for White homebuyers.

ES-3 DIRECTIONS FOR PUBLIC POLICY AND THE REAL ESTATE Industry

The following policy recommendations are intended to address the current and systemic issues presented in Sections I and II of this report.

Pandemic Responses

- Institute aggressive loan forbearance and credit reporting mandates to protect Black homeowners and potential homebuyers from financial devastation due to the COVID-19 pandemic
- Establish Federal-level rent relief and eviction bans to help Black homebuyers and potential homebuyers nationwide
- Continue the CARES Act suspension of federal student loan payments, debt collections, and zero interest provisions through the end of the pandemic crisis.

Congress and the President

- Issue an Executive Order to prioritize Black homeownership as a policy goal.

- Restore fair housing regulatory protections and enforcement, e.g. Furthering Fair Housing (AFFH) rule and HUD's 2013 regulation formalizing the Fair Housing Act's disparate impact standard.
- Reform the secondary market system and strategically align the roles of Fannie Mae, Freddie Mac, FHA, and their regulators.
- Refocus the GSEs' original mission, which at least since the 2008 crisis has failed to serve the Black community in any meaningful way.
- Appoint FHFA as a regulator along with CFPB
- Require Enterprises to hold seller-servicers accountable for compliance with Fair Lending and other consumer protection laws

FHA and HUD

- Provide additional support for technological innovation for FHA and VA.
- Expand and reform the FHA Title I rehab loan program, and to include rehabilitation loan purchases in the GSE 'Duty to Serve' regulations.
- Reform the HUD 203k program.
- Revise the Community Reinvestment Act to modernize banks' requirements to serve Black communities in ways that do not exacerbate gentrification and segregation.
- Leverage Regulation B of the Equal Credit Opportunity Act, Section 1002.8, which allows for special credit programs for economically-disadvantaged groups.
- Create a restorative African-American Homeownership program, like HUD's Section 184/ Native American Housing Program.
- Expand enforcement of Dodd-Frank Section 349 on Diversity and Inclusion
- Pass the American Dream Down Payment Savings Plan Act. This bill would create tax-advantaged plans designed for down payment savings.
- Adopt the Employer Participation in Repayment Act proposed in 2020 for employers to provide tax-free student loan debt repayment.
- Expand the Housing Trust Fund and the Capital Magnet Fund, financed by Fannie Mae and Freddie Mac.
- Expand the Low-Income Housing Tax Credit (LIHTC) program with extended affordability requirements.
- Require that Opportunity Zone funds be directed to long-term residents versus investors.
- Establish a Renaissance Neighborhood Program to bolster Black homeownership in historically redlined neighborhoods and transform communities.
- Establish a Minority Homeownership Marketing, Outreach, and Assistance program.

Mortgage Industry Actions

- Increase FHA lending and other down payment assistance programs in areas with low Black homeownership rates.
- Reduce the mortgage insurance requirements for FHA borrowers.
- Eliminate Loan Level Price Adjustments (LLPAs).
- Re-assess risk-based pricing and capital requirement policies that disadvantage Black borrowers.
- Alter the treatment of student loans in the DTI formula to include only the reported payment amount.

State and Local Government Actions

- Evaluate inclusionary zoning programs and their effects on Black communities.

- Update state fair housing and fair lending laws to add needed protections not found in federal law.
- Step up enforcement of these laws, by requiring more training, conducting more investigations, and sanctioning violations.

Real Estate Industry Actions

- Expand self-regulation to promote fair housing and fair lending access, and prevent the proliferation of problematic practices, such as arbitrary underwriting guidelines.
- Leverage industry influence to demand that industry participants comply with Fair Housing or other laws that affect Black communities.
- Increase diversity in the real estate and mortgage industry, especially in senior leadership, and encourage minority business utilization.

1 STATE OF HOUSING IN BLACK AMERICA

Taylor and Riley are a Black couple in their early 30s. After renting a 2-bedroom apartment in a major West Coast U.S. city for several years, they wanted more space for their 3-year old child in daycare, and for Taylor's mother, age 68, who has suffered complications from diabetes. A Realtist friend suggested that they consider buying their own home. Although Taylor and Riley are college-educated professionals, they have considerable debt, little wealth, and negligible savings. It was a challenge for them to save enough for a down payment due to their student loan payments and other obligations, but finally, they were able to qualify for an FHA mortgage loan at a reasonable interest rate. In late 2019, they purchased a single-family home in the neighborhood where Riley grew up.

In March 2020, the COVID-19 pandemic began to spread through communities all over the U.S. Taylor and Riley's community was hit especially hard. Riley was exposed to COVID-19 at work as a health care provider and was quarantined for 2 weeks in late March. Several of Riley's co-workers have tested positive, and there have been concerns about the lack of personal protective equipment and safety protocols. In April, Taylor's employer, a personal-service business, went out of business, taking with it their subsidized health insurance coverage and retirement contributions. And, since then, despite the forbearance on their mortgage, other loans, and the relief payments from the CARES act, they are not sure how or when they will recover financially.

Why has this pandemic had such a devastating impact on this family? How would their situation differ if they were white? Neither Taylor nor Riley's parents were homeowners. Black working-class families during that time had fewer educational or advancement opportunities or access to credit. They lived in predominantly Black neighborhoods that had been 'redlined' in the 50s and 60s. Thus, over time, similarly-situated White families who purchased homes nearby have accumulated hundreds of thousands of dollars of wealth while Taylor and Riley's families had no home equity with which to fund their children's college educations. Taylor and Riley now owe over $120,000 in student loan debt. Their city remains highly segregated by race and income, their predominantly Black neighborhood lacks many of the public services or private-sector amenities that are available in other areas. House prices there have yet to fully recover from the 2008 financial crisis. Although various Federal and State consumer protections have been put in place to prohibit discrimination and redlining, these practices persist.

Fast forward to 2020-- rates of COVID-19 infection in their neighborhood have been significantly higher than other parts of the area. Taylor works in an industry that has sustained disproportionate losses due to the pandemic. Riley is still working but faces a high risk of exposure to the virus, and is concerned about infecting family members, especially Taylor's immuno-compromised mother. The challenges facing Taylor and Riley, similar to many other households in the Black community, began with intergenerational economic and social disadvantages that have impeded their opportunities to obtain and sustain homeownership. How do Taylor and Riley's circumstances differ from those of White families? What does the mortgage market look like for them? What public policy interventions would help Black families achieve and sustain the American dream of homeownership?

1.1 INTRODUCTION

Homeownership enables families to build wealth, helps stabilize communities, and has been linked to access to educational, employment opportunities, increased safety as well as physical and mental health.[3] The market for single-family homes and their financing are key components of a strong economy; the housing market also employs thousands of professionals as well as earnings for industry practitioners and returns for investors. Despite the emphasis on this aspect of the 'American Dream' in popular culture and among scholars and policymakers, Black and other minority families have faced many barriers to homeownership, most of which can be traced to cumulative disadvantage and structural inequalities.[4]

Figure 1-1 shows the direct and indirect links between race, access to mortgage credit, and homeownership. Mortgage lenders and investors use statistical techniques to model the probability of default based on multiple indicators of the '3 C's of mortgage lending,' Credit, Capacity, and Collateral. Each of these components of underwriting requirements varies by race, and as a result, race affects the pool of potential Black homeowners who can qualify for a mortgage as well as the characteristics of mortgage loans. Racial differences in mortgage credit access have led to the homeownership gap, and ultimately, the stark disparities in wealth between Black and White households in America.

Despite these challenges, there are significant untapped opportunities for Black homeownership. There are 11 million Black Millennials, between the ages of 24 and 39, representing 22 percent of the Black population.[5] Also, according to recent research sponsored by Freddie Mac, there are nearly 3 million Black Americans that meet the criteria to qualify for a mortgage.[6]

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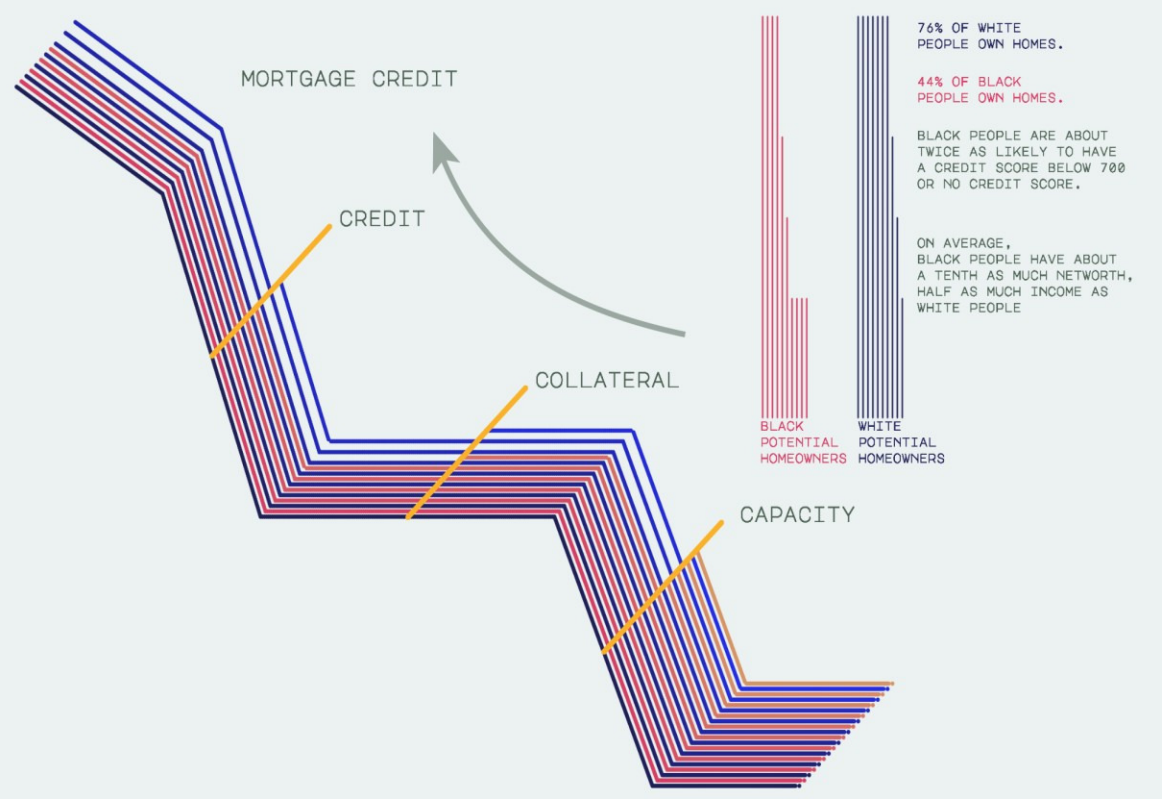
3 c.f., Yun, L., & Evangelou, N. (2016). Social Benefits of Homeownership and Stable Housing. National Association of Realtors; Green, R. K., Painter, G., & White, M. J. (2012). Measuring the Benefits of Homeowning: Effects on Children Redux. Haurin, D., Dietz, R., Weinberg, B., 2003. The impact of neighborhood homeownership rates: a review of the theoretical and empirical literature, Journal of Housing Research 13, 119-151.

4 Perry, Vanessa G. (2019), "A Loan at Last? Race and Racism in Mortgage Lending," in Race in the Marketplace: Crossing Critical Boundaries, G.D. Johnson, K.D. Thomas, A.K. Harrison, S. A. Grier, editors: Palgrave MacMillan: Cham, Switzerland, 173-192.

5 U.S. Census, Annual Estimates of the Resident Population by Sex, Age, Race Alone or in Combination and Hispanic Origin for the United States: April 1, 2010 to July 1, 2019

6 "Building the Future with 'Mortgage-Ready' Borrowers," presented by Freddie Mac and HousingWire, https://sf.freddiemac.com/articles/insights/building-the-future-with-mortgage-ready-borrowers.

Figure 1-1: Black Borrowers Face Challenges in Access to Mortgage Credit and Homeownership



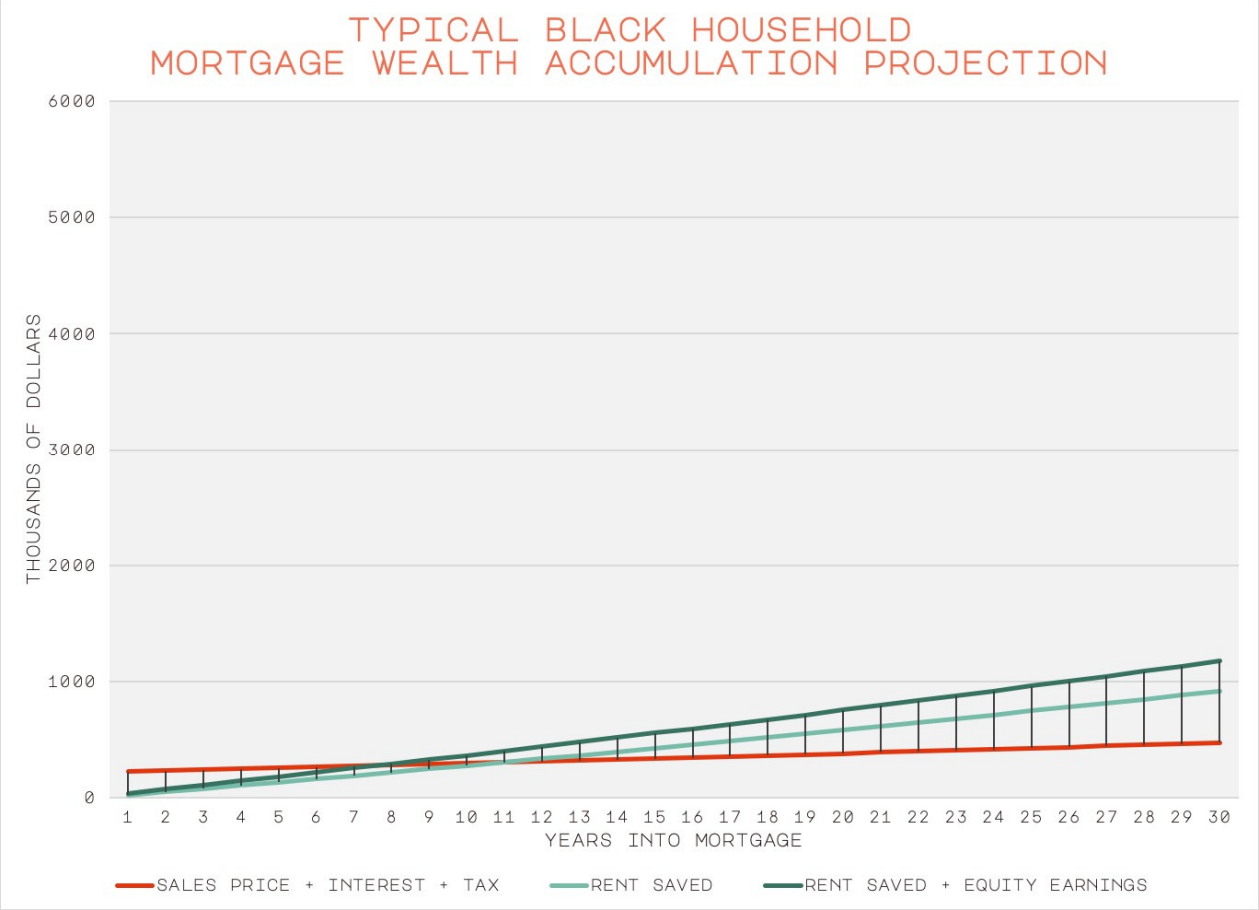
In this report, we will examine the current state of homeownership for Black households in the U.S., as well as the factors that influence access to the mortgage market for prospective homebuyers. Because of cumulative disadvantage, Blacks accrue fewer benefits of higher earnings, education, and homeownership than do Whites. Simply put, the effects of discrimination and inequality-- in housing, education, employment, health care, the justice system, and other institutions-- suppress access to and the accumulation of wealth. These intergenerational problems get passed down to new generations of Black Americans, which means that even with higher levels of educational attainment, employment opportunities, and access to economic and social capital because they started at a deficit, it is difficult if not impossible to catch up to similarly-situated others. This disadvantage occurs for Blacks in their interactions with many different institutions and entities, including, for example, landlords, real estate agents, banks, and mortgage companies, and regulators[7]. It is important to acknowledge that race-based disadvantage is dynamic -- race can affect a person's wealth level at a point in time, but also can affect changes in wealth over time, e.g., house price appreciation is lower on average in predominantly Black neighborhoods[8], and Blacks are more likely to face financial disruptions. The graphic in Figure 1-2 compares interest rates, property taxes, neighborhood house price appreciation, and rent savings for Black versus White homeowners

7 Roscigno, V.J., Karafin, D.L., & Tester, G. (2009). The complexities and processes of racial housing discrimination. Social Problems, 56(1), 49-69.

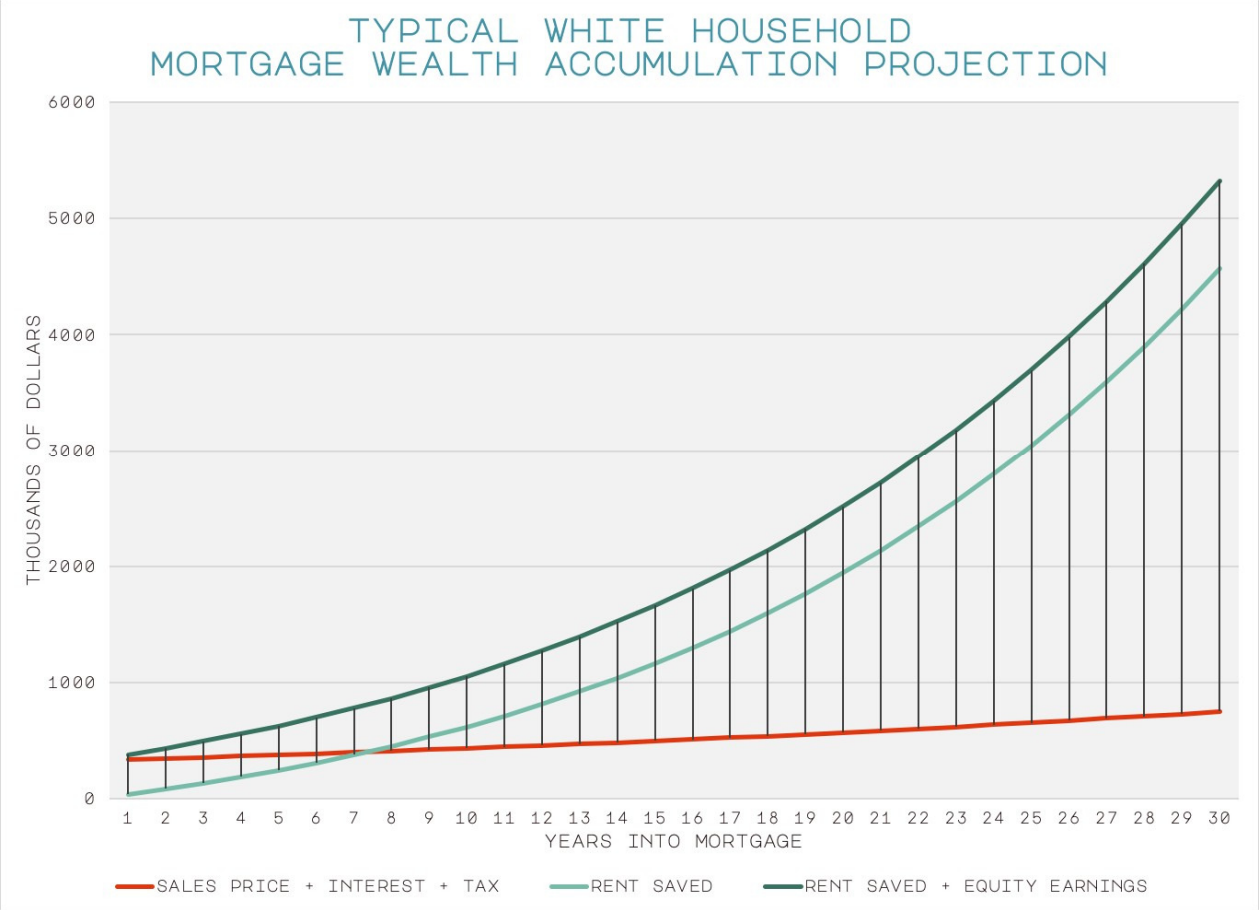
8 DiPrete, T.A. and Eirich, GM (2006). Cumulative advantage as a mechanism for inequality: a review of theoretical and empirical developments. *Annual Review of Sociology*, 32(1), 271-297.

over a 30-year period. Because of lower initial equity, house price appreciation, and because Black borrowers pay higher mortgage interest rates on average, Black homeowners accrue about one-third of the financial benefits of homeownership as White homeowners over 30 years.

Figure 1-2: Disparities in Housing and Access to Credit Contribute to Cumulative Wealth Inequality[9]



[9] Assumes Purchase Price White 330K Black 220K; Interest Rates White 4% Black 4.5%; Down Payment White10% Black 3.5%; Property Tax Rate White 1% Black 1.13%; Rent Rate (of home value) White 1% Black 1%; Growth Rate White 4.5% Black 0.5%. Data sources: 2018 HMDA, Center for American Progress, "The Assessment Gap: Racial Inequalities in Property Taxation, "Carlos Avenancio-Le´on and Troup Howard, Working paper, June 2020, https://www.washingtonpost.com/context/the-assessment-gap-racial-inequalities-in-property-taxation/215957a4-d5ad-47cd-821a-070cf23b6bc7/?itid=lk_inline_manual_3.
Both numbers are based on typical growth rates for each group improving from the 2006-2017 range (reference numbers from Center for American Progress)



In the years since the 2008 crisis, homeownership opportunities for Black Americans had begun to take a promising turn. However, in early 2020, the onset of the COVID-19 pandemic very quickly began to threaten the lives, health, and economic viability of Black households across the U.S. Some of the same systemic inequities that have affected Black homeownership and wealth have over time resulted in inadequate access to health care. As a result, Black people are at higher risk of chronic health conditions, and are, according to the Centers for Disease Control, at increased risk of getting COVID-19 or experiencing severe illness. For example, in June of 2020, non-Hispanic Black persons had a COVID-19 hospitalization rate that is nearly 5 times higher than non-Hispanic White persons[10]. Black workers have experienced higher rates of job loss and unemployment during the pandemic. Black Workers are also more likely to work in 'front-line' jobs that carry a higher risk of infection. Black persons make up 11.9 percent of the workforce, and 17 percent of jobs in these industries, and constitute even higher proportions of workers in public transit, childcare, healthcare, and social services.[11] Also, Black-owned small businesses have been less likely to survive during the pandemic. According to a study released in April 2020, the number of small businesses in the U.S. had fallen 22 percent during the first two months of the shutdown, while the number of Black-owned businesses fell by 41 percent.[12] These economic shocks have had differential effects on the ability of households to make timely mortgage payments. According to the Census in June 2020, 7.9

10 https://www.cdc.gov/coronavirus/2019-ncov/need-extra-precautions/racial-ethnic-minorities.html
11 https://cepr.net/a-basic-demographic-profile-of-workers-in-frontline-industries/
12 https://siepr.stanford.edu/sites/default/files/publications/20-022.pdf

percent of Black households and 8.2 percent of Hispanic households had deferred last month's mortgage payments compared to 3.7 percent of White households.[13] In terms of expectations for next month's mortgage payments, 8.5 percent of Black borrowers reporting having had no confidence in their ability to pay their mortgage compared to 2.8 percent of White borrowers, and 3.6 percent of Black borrowers were planning to defer their next mortgage payment compared to 1.8 percent of White borrowers. While the long-term effects of the pandemic are difficult to predict, judging from past experiences with economic crises, the implications for the sustainability of Black homeownership as well as new opportunities are likely to be significant without substantial, deliberate, and targeted public policy interventions.

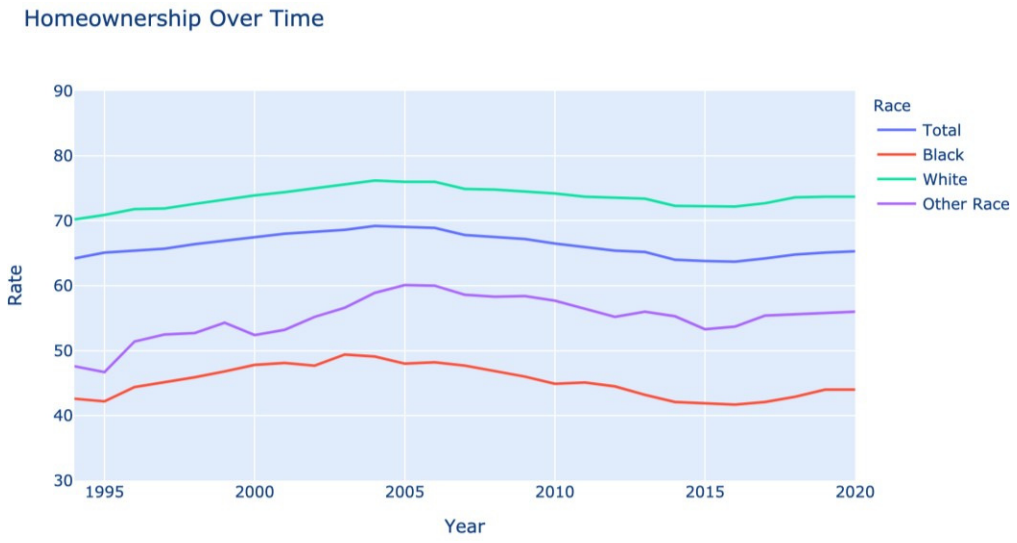
The purpose of this annual report is to present the current state of homeownership for Black Americans while highlighting current challenges as well as opportunities for closing the homeownership gap. In the section that follows, we highlight homeownership rates over time, market opportunities for Black homebuyers, as well as the demographic and economic characteristics that differentiate Black homeowners and underlie homeownership disparities. We then examine the state of the mortgage market for Black homebuyers and provide a profile of Black mortgage loan applicants and borrowers based on the criteria used for mortgage loan underwriting. Throughout this report, we present special sections that provide a deeper examination of current market phenomena that suppress access and opportunity to homeownership for Black households, including loan pricing, market structure, credit scoring, fair lending regulation, housing discrimination, and COVID-19 pandemic regulation. The last section includes a set of recommendations for impactful public policy interventions.

1.2 STATE OF BLACK HOMEOWNERSHIP

According to the U.S. Census Bureau, in 2019 the homeownership rate was 42.1 percent for Black, 47.5 percent for Latinx, and 73.4 percent for White households.[14] Census estimates for the second quarter of 2020 report that the Black homeownership rate of 47.0 percent, and 76.0 percent for non-Hispanic White households.[15] Figure 1-3 shows the rate of homeownership for Black households relative to White and other races over time. For Black households, the homeownership rate was at its highest around 2004, a time which coincided with the proliferation of subprime mortgage lending. The Black homeownership rate began to decline before the 2008 financial crisis, and this downward trend continued until 2018 when the low-interest-rate environment and strong economy overall led to gains in homeownership for Black households. In addition, the gap between Black and White homeownership has remained relatively constant over time-- only for a brief period in the early 2000s were there signs that this gap was narrowing. The Black-white homeownership gap in 2020 was 26 percentage points, only slightly lower than the 26.8 percentage point gap in 1960, before the passage of the 1968 Fair Housing Act.

[13] Census Household Pulse Survey data, https://www.census.gov/data/tables/2020/demo/hhp/hhp8.html
[14] U.S. Census Bureau, Homeownership Rate for the United States, https://fred.stlouisfed.org/graph/?g=tNbQ
[15] U.S. Census Bureau, Homeownership Rate for the United States, retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/NHWAHORUSQ156N

Figure 1-3: Black Homeownership Was 47 Percent in 2020 and Has Yet to Reach Pre-2008 Crisis Levels



Source: U.S. Census.

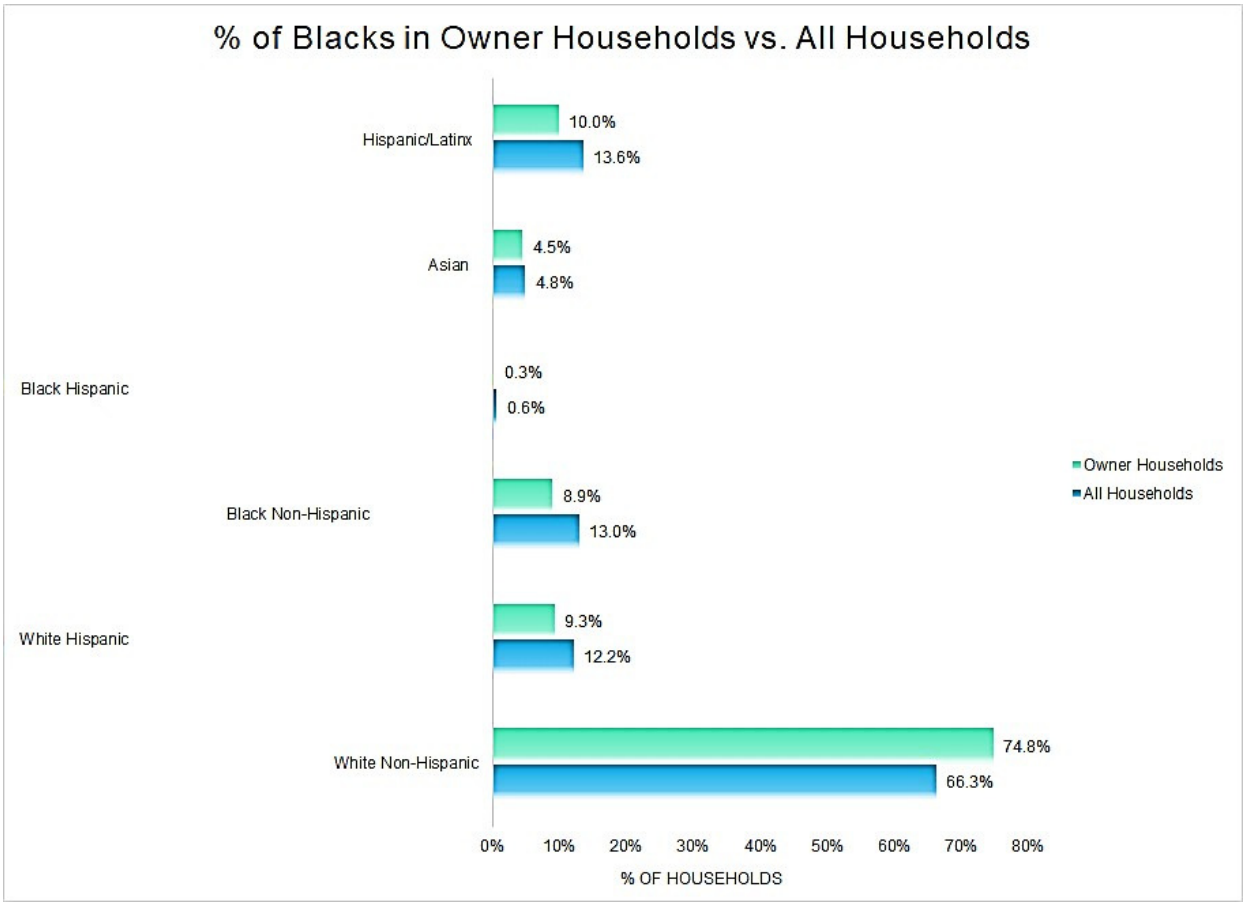
Another benchmark for comparing Black homeownership is the distribution of all U.S. households. As shown in Figure 1-4, 13 percent of all U.S. households are Black, (non-Hispanic), while only 8.9 percent of owner households are Black. White households represent 66.3 percent of all U.S. households but represent 74.8 percent of owner households. [16] Among new home buyers in 2018, whites accounted for 62.4 percent, Hispanics 10.8 percent, Asians 6.5 percent, and Blacks 6.2 percent (HMDA 2018). Thus, the proportion of new Black homebuyers is less than half of the proportion of Black households in the U.S. (13 percent).

Because socioeconomic disadvantage influences multiple factors related to the homeownership gap[17], the next sections are focused on key characteristics of Black homeowners, as well as demographic variations in the homeownership gap.

16 https://www.census.gov/quickfacts/fact/table/US/RHI825218#RHI825218; Source: U.S. Census Bureau, American Housing Survey, 2017 National - Household Demographics - All Occupied Units

17 https://www.urban.org/sites/default/files/publication/101160/explaining_the_black-white_homeownership_gap_a_closer_look_at_disparities_across_local_markets_0.pdf

Figure 1-4: Blacks Are Under-Represented Among Owner Households

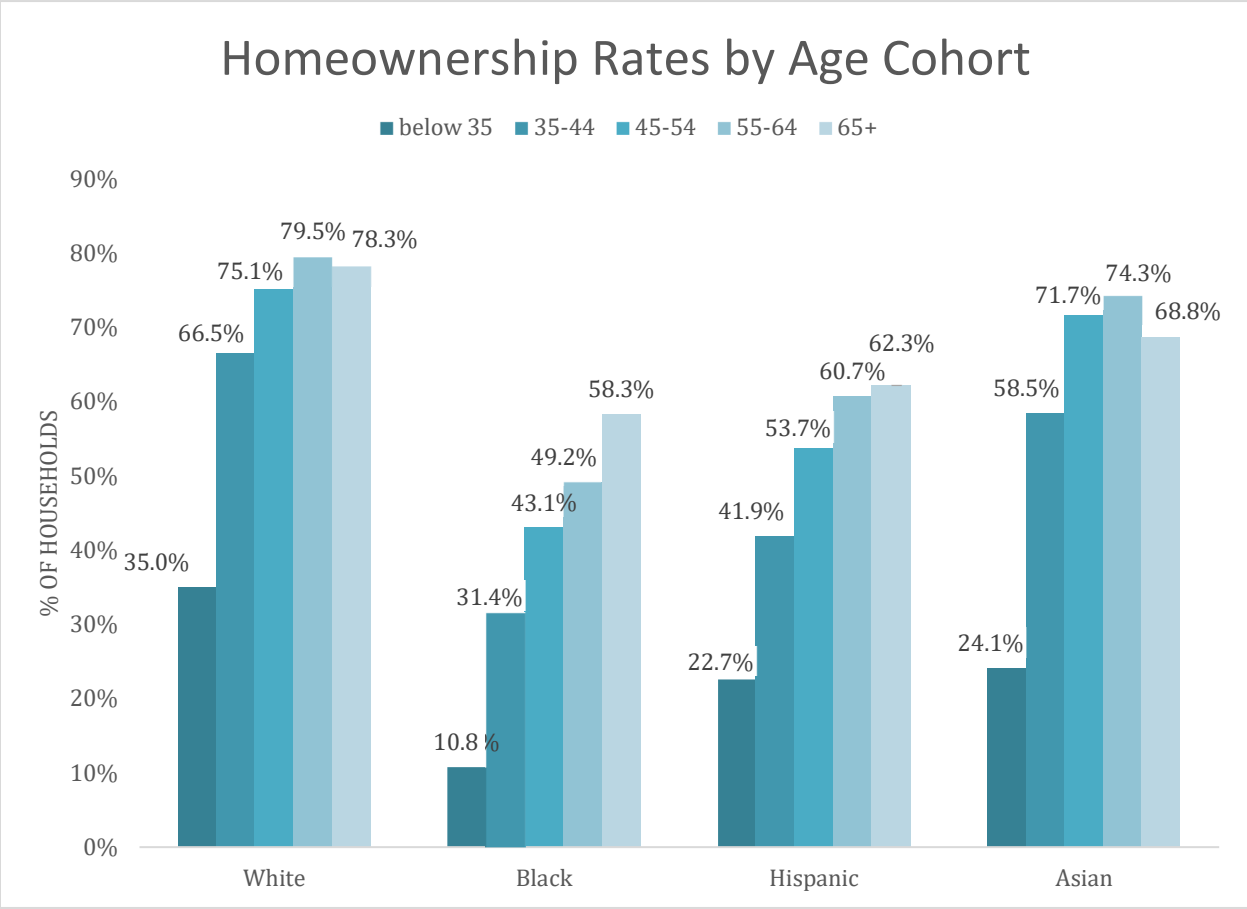


Source: U.S. Census, American Housing Survey, 2017 National - Household Demographics - All Occupied Units

1.3 AGE

As shown in Figure 1-5 below, the Black-White homeownership gap is high across all age groups. The smallest gap is among those who are over age 65, which suggests that Blacks become homeowners later in life. Still, the homeownership rate is 62.4 percent for Blacks over age 65, relative to 81.4 percent for Whites in this age group.

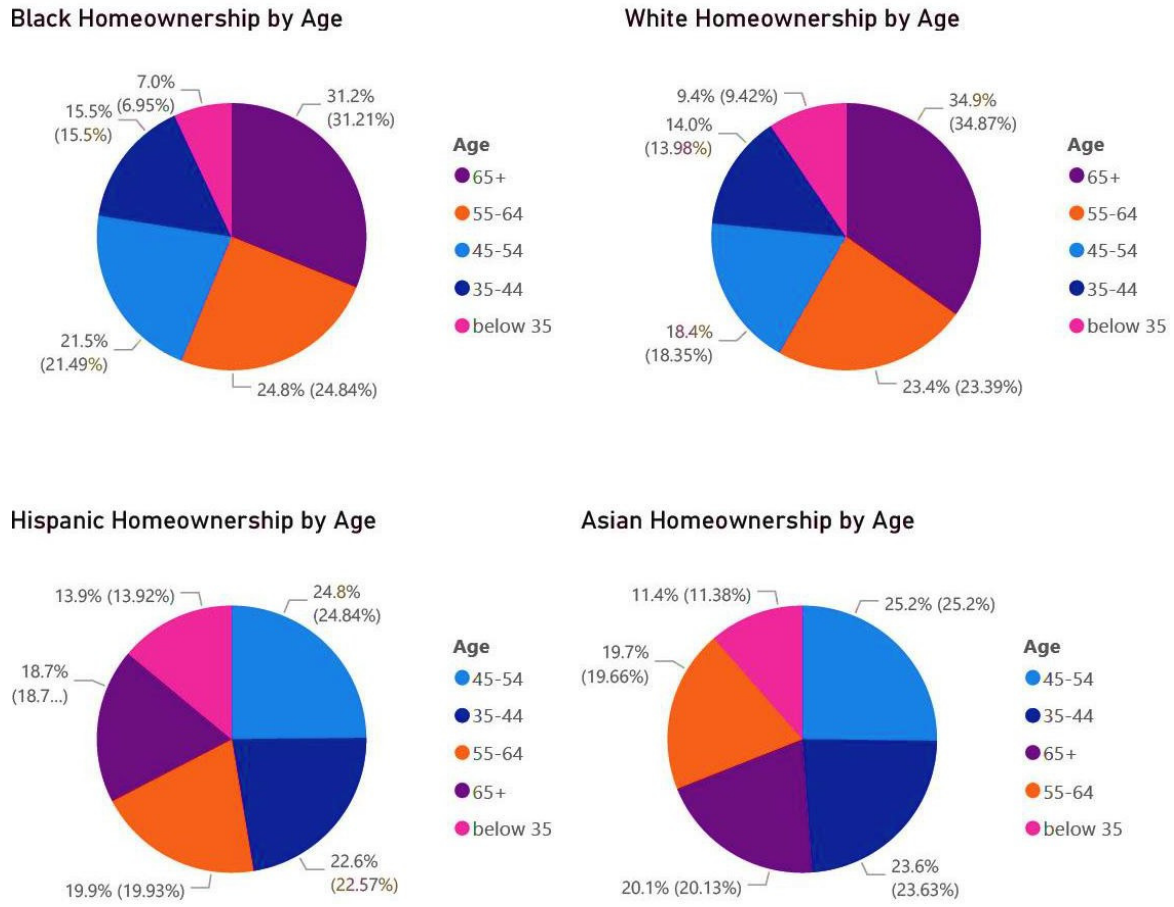
Figure 1-5: Homeownership Rates Are Especially Low for Younger Black Households



Source: U.S. Census, American Housing Survey, 2017 National - Household Demographics - All Occupied Units

Figure 1-6 shows the age distribution of homeowners by racial and ethnic group. The proportion of Black homeowners who are under 35 years old, shown in pink, is 7 percent compared to 9.4 percent for White, 13.9 percent for Hispanic, and 11.4 percent for Asian homeowners. Thirty-one percent of Black homeowners are 65 or over, compared to 35 percent of White homeowners. At the same time, only approximately 20 percent of Hispanic and Asian homeowners are aged 65 or older, which may reflect differences in household composition. These findings are consistent with the patterns of life expectancy in the overall population. For example, 11 percent of the overall Black population in the U.S. is over 65 compared to 19.3 percent of the White population.

Figure 1-6: Homeownership Rates for Black Householders Under Age 35 Are Lower Than Rates for Other Groups

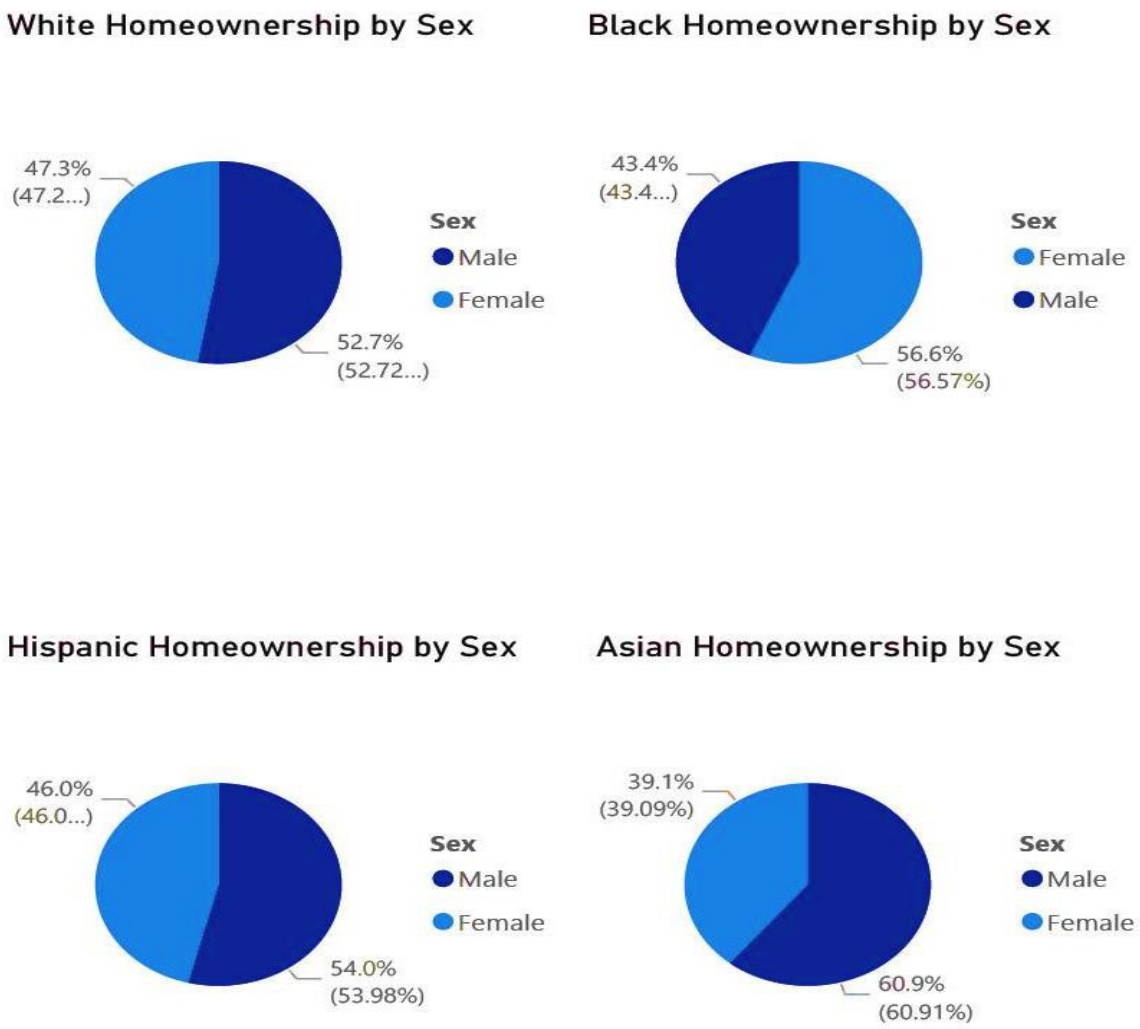


Source: 2018 American Community Survey

1.4 GENDER

Figure 1-7 compares the proportion of households headed by women versus men by race and ethnicity. Blacks have a higher share of owner households headed by females than any other category of owner households.

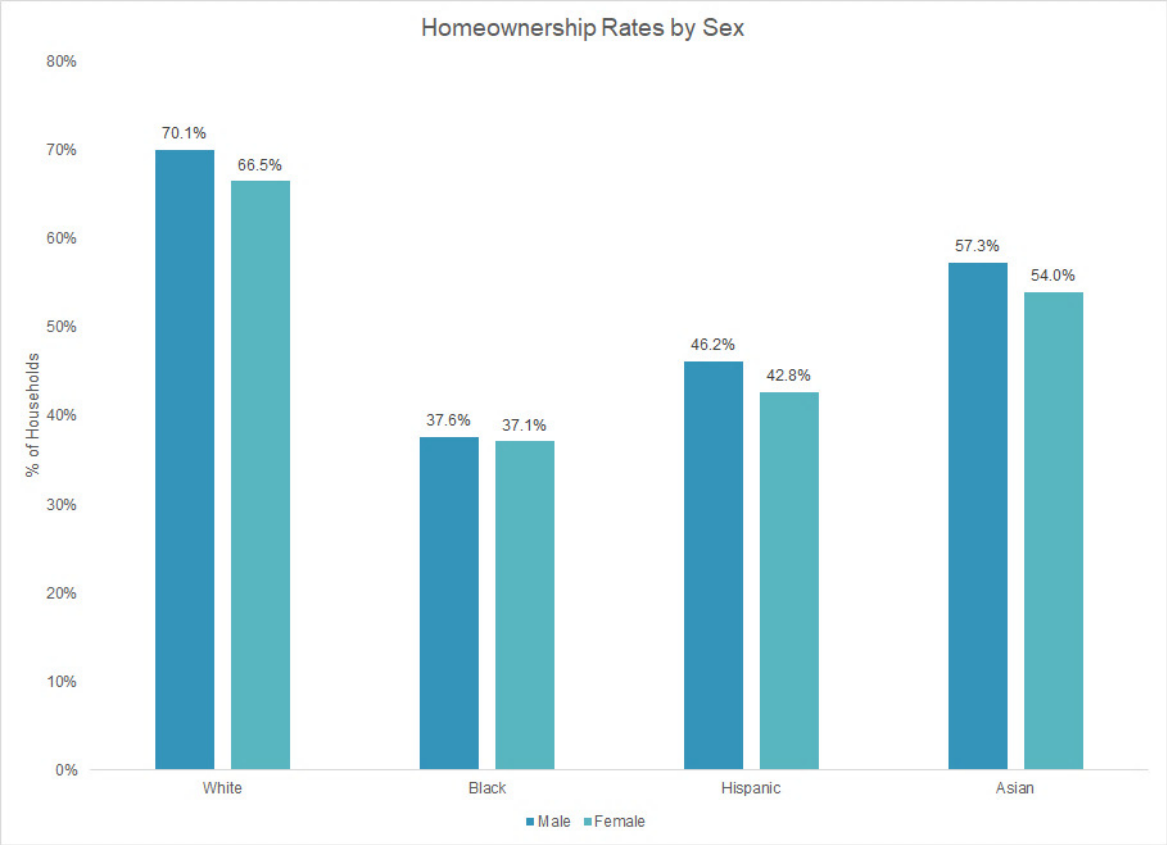
Figure 1-7: Black Owner Households Are More Likely to be Headed By Females



Source: 2018 American Community Survey

For all racial/ethnic groups, females have slightly lower homeownership rates than males. However, as shown in Figure 1-8, in the case of Black homeownership, the gender gap in homeownership is negligible compared to other racial and ethnic groups.

Figure 1-8: The Gender Gap in Homeownership Rates for Black Households Is Small Relative to Other Groups

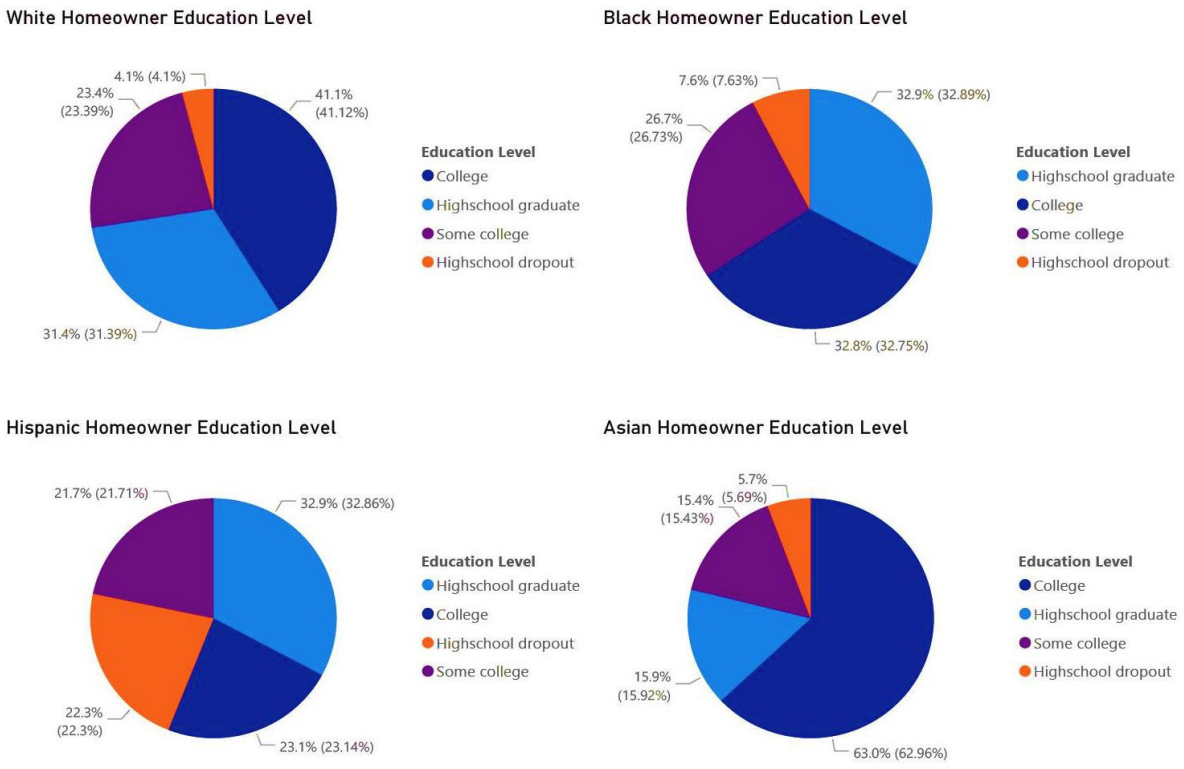


Source: 2018 American Community Survey

1.5 EDUCATION

Not surprisingly, racial gaps in educational attainment contribute to homeownership disparities. For example, 85.4 percent of the Black population in the U.S. graduated from high school, compared to 92.5 percent of Whites, and 67 percent of Hispanic/Latinx adults. As shown in Figure 1-9 below, White and Asian homeowners are more likely to be college graduates, while this is not the case for Black homeowners or Hispanic/Latinx homeowners.

Figure 1-9: Black Homeowners Are Less Likely to Have a College Degree

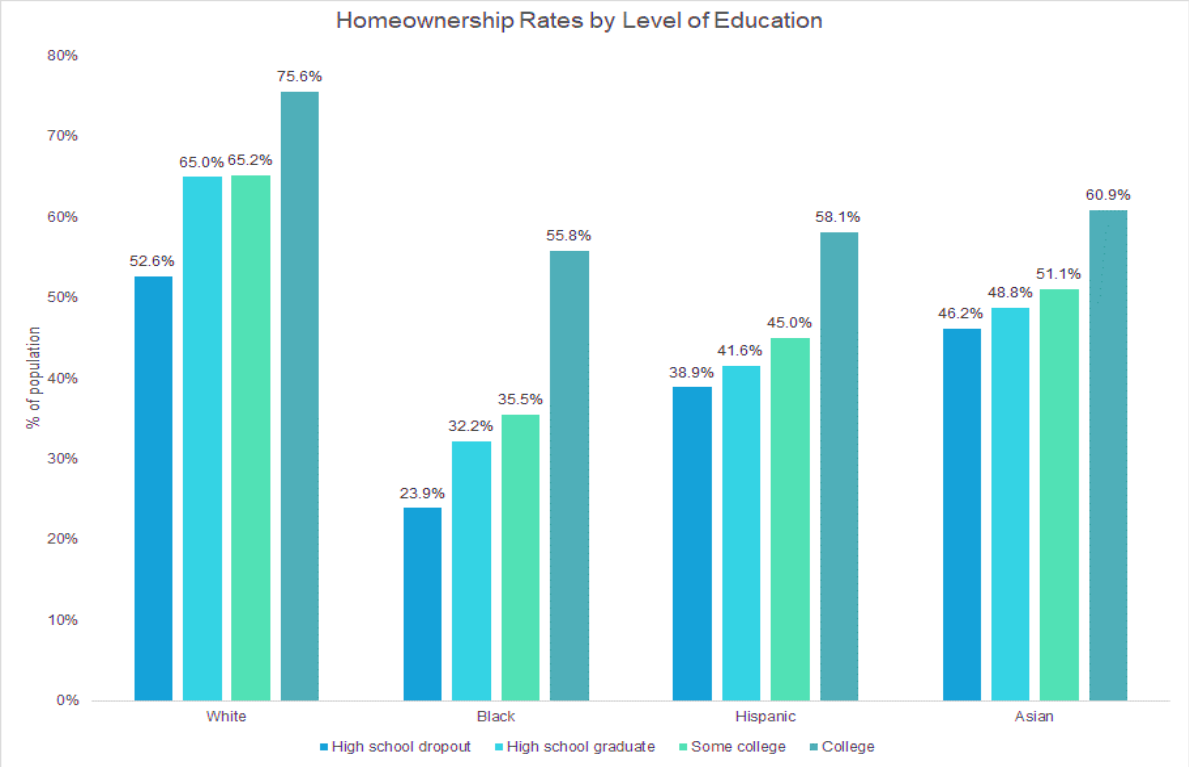


Source: 2018 American Community Survey

In addition, Figure 1-9 shows that returns to educational attainment are significantly lower for Black graduates than for White graduates. The homeownership rate for Blacks who graduated from college is only 3.2 percentage points higher than that of White high school dropouts.[18]

[18] https://www.urban.org/urban-wire/why-do-black-college-graduates-have-lower-homeownership-rate-white-people-who-dropped-out-high-school

Figure 1-10: Homeownership Rates for College-Educated Black Americans Are Lower than that of White High School Graduates



Source: 2018 American Community Survey

Student loans used to fund college education affect homeownership opportunities. For Black college students, 86.4 percent have some form of student loan debt. Twenty-nine percent of 2015–16 White bachelor's degree recipients graduated without debt, but only 14 percent of African-American graduates were able to avoid student loans. Thirty-three percent of African-American bachelor's degree recipients owe $40,000 or more in debt, compared with 18 percent of White graduates and 13 percent of Hispanic graduates. The average student loan payment in 2019 was $393 per month, and the median was $222.[19] Student loan payments are included in debt-to-income calculations used for mortgage underwriting. For most loan types, including conventional and FHA, either 1.0% of the outstanding student loan balance or the payment that is reported to the credit bureau is included in the DTI calculation. Student loans also affect FICO scores, in terms of the total debt outstanding, the monthly payment amount, as well as payment history.[20]

Policy interventions such as the Employer Participation in Repayment Act proposed in 2020 could make it easier for employers to provide tax-free assistance to help graduates offset their student loan debt.[21] In another positive example, the CARES Act suspended all federal student loan payments

[19] https://1xfsu31b52d33idlp13twtos-wpengine.netdna-ssl.com/wp-content/uploads/2019/02/Race-and-Ethnicity-in-Higher-Education.pdf; https://ticas.org/wp-content/uploads/2020/02/Rising-Student-Debt-2020-Election.pdf

[20] https://www.experian.com/blogs/ask-experian/do-student-loans-affect-credit-score/

[21] https://www.washingtonpost.com/opinions/2019/06/13/african-americans-are-held-back-most-by-student-loan-debt-heres-solution/

and debt collections until September 30, 2020, without penalty to borrowers' credit history; also, these loans are charged 0 % interest during this period.[22]

Recent reports on the latest version of the FICO Score, FICO 10, suggest that less emphasis will be placed on high student loan balances than in prior FICO score models.[23]

1.6 INCOME AND WEALTH

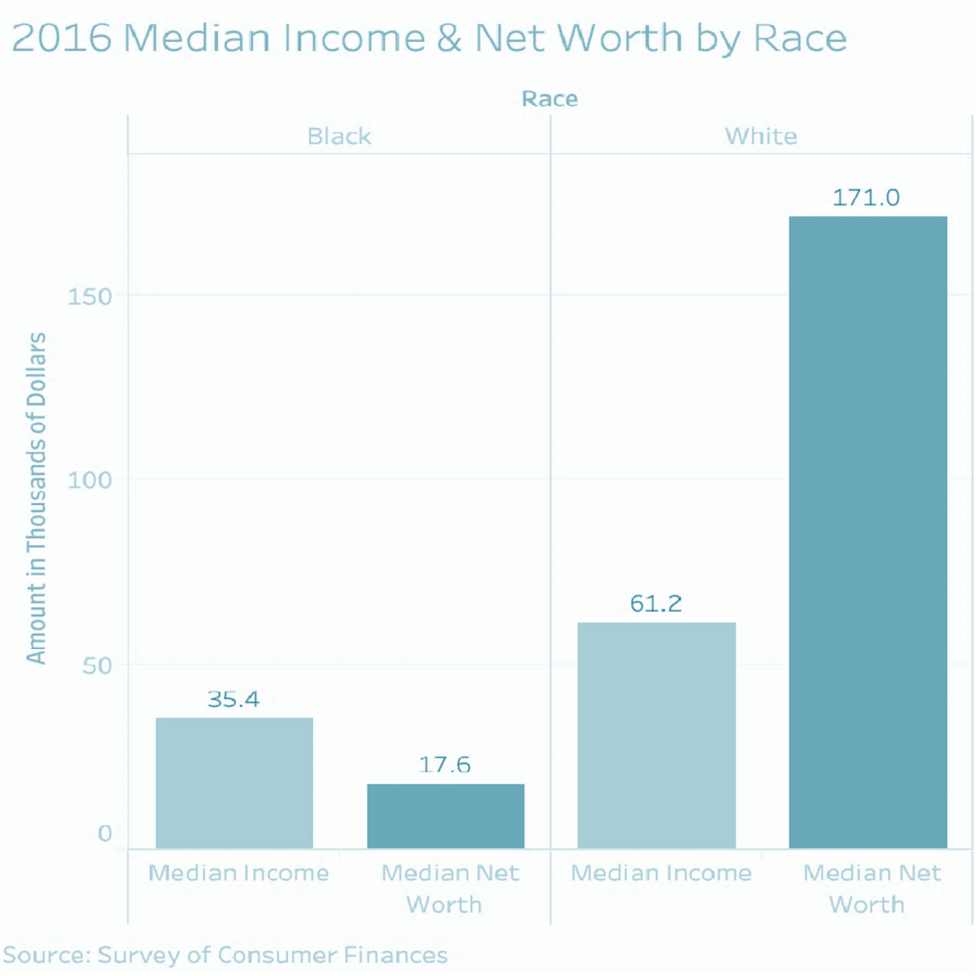
Racial gaps in income and wealth are primary drivers of the homeownership gap. The cumulative effects of these stark disparities manifest themselves in access to mortgage credit and homeownership opportunities, via income and downpayment and reserve requirements, debt-to-income (DTI) ratios, loan-to-value (LTV) ratio, and credit history. As depicted in Figure 1-11, on average, Black household incomes and net worth are significantly lower than those for White Americans. In 2018, for example, the median income for Black households was 40 percent lower than the median for White households. The effects of cumulative disadvantage are also readily apparent in wealth disparities. In 2018, White households had a median net worth that was 10 times higher than the median net worth for Black households. The Federal Reserve reports that approximately 20 percent of Black households have zero or negative net worth, compared to 9 percent of White households[24].

[22] https://www.forbes.com/sites/advisor/2020/04/03/what-the-cares-act-means-for-student-loan-borrowers-seeking-public-service-loan-forgiveness/#79eca3c64e88

[23] https://www.cnbc.com/2020/01/27/ficos-new-credit-score-wont-ding-you-for-student-loans-or-mortgages.html

[24] https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finances-20170927.htm

Figure 1-11: Black Households Earn 40 Percent Less than White Households; White Households Have 10 Times Higher Net Worth [25]



1.7 GEOGRAPHIC LOCATION

Where do Black homeowners live? The Black population in the U.S. is concentrated in major cities. Sixty-two percent of the Black population is concentrated in 20 MSAs. Homeownership rates range from 31.9 percent in Los Angeles to 49.8 percent in Richmond, VA. It is also worth noting that in 2019, 25.6 percent of the Black population resided in areas where the median house price is above that for the U.S.-- $253,000.[26] Table 1-1 lists the metropolitan areas with the highest percentage of Black households, and the corresponding homeownership rate, the Black-White homeownership gap, median home price, and the NAHB Wells Fargo housing opportunity index. This index is a measure of affordability, calculated as the share of homes sold in that area that would have been

[25] Dettling, Lisa J., Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, and Jeffrey P. Thompson (2017). "Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 27, 2017, https://doi.org/10.17016/2380-7172.2083.

[26] Median house prices provided by Clear Capital, https://www.kiplinger.com/article/real-estate/T010-C000-S002-home-price-changes-in-the-100-largest-metro-areas.html; 2020 Black Homeownership by MSA from U.S. Census; National Association of Home Builders-Wells Fargo Opportunity Index

affordable to a family earning the local median income, based on standard mortgage underwriting criteria.[27]

Table 1-1: Homeownership, House Prices, and Affordability Vary Across MSAS with the Highest Concentration of Black Residents

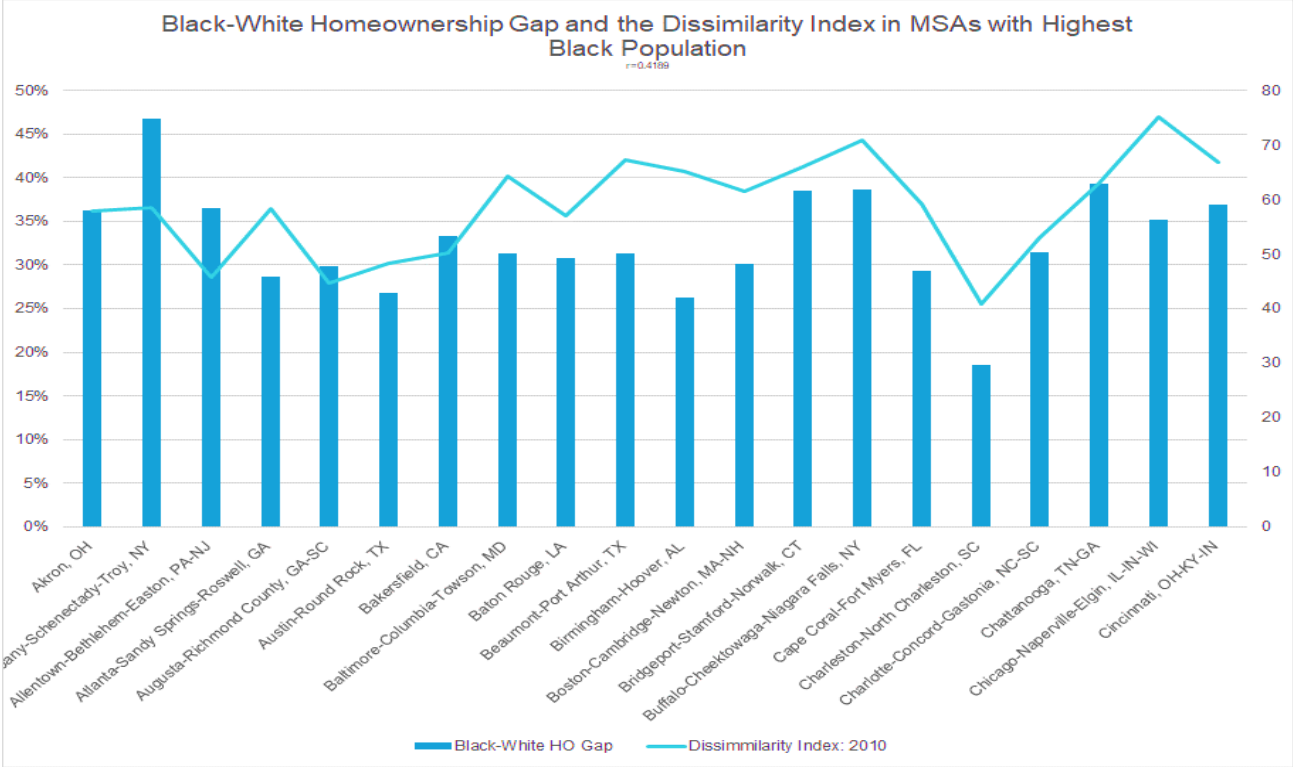
Metropolitan Statistical Area	Black HO Rate	Black-White HO Gap	Median Home Price	Housing Opportunity Index 2020 Q1
Los Angeles-Long Beach-Anaheim, CA	31.9%	25.6%	$650,000	10.4%
Boston-Cambridge-Newton, MA-NH	38.5%	30.1%	$421,000	49.2%
New York-Newark-Jersey City, NY-NJ-PA	33.9%	32.8%	$418,000	32.4%
Washington-Arlington-Alexandria, DC-VA-MD-WV	51.7%	20.2%	$397,000	71.8%
Miami-Fort Lauderdale-West Palm Beach, FL	46.4%	27.9%	$269,000	32.4%
Baltimore-Columbia-Towson, MD	46.2%	31.4%	$254,000	81.1%
Orlando-Kissimmee-Sanford, FL	47.6%	23.7%	$235,000	57.2%
Richmond, VA	49.8%	25.2%	$233,000	75.8%
Virginia Beach-Norfolk-Newport News, VA-NC	42.3%	28.6%	$229,000	78.2%
Chicago-Naperville-Elgin, IL-IN-WI	40.3%	35.2%	$229,000	64.5%
Charlotte-Concord-Gastonia, NC-SC	44.1%	31.4%	$227,000	72.5%
Dallas-Fort Worth-Arlington, TX	35.3%	33.9%	$225,000	54.5%
Atlanta-Sandy Springs-Roswell, GA	48.3%	28.6%	$225,000	72.8%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	48.1%	27.4%	$220,000	67.6%
New Orleans-Metairie, LA	47.4%	28.2%	$199,000	60.5%
Houston-The Woodlands-Sugar Land, TX	41.1%	30.5%	$197,000	60.5%
Detroit-Warren-Dearborn, MI	42.1%	36.9%	$164,000	81.0%
St. Louis, MO-IL	39.4%	37.1%	$163,000	87.2%
Memphis, TN-MS-AR	44.3%	32.8%	$147,000	74.3%
Cleveland-Elyria, OH	34.5%	41.0%	$135,000	84.2%

Many of these metropolitan areas are highly segregated by race. Figure 1-12 below shows the dissimilarity index, a measure of racial segregation, for each of these areas.[28] Also depicted is the

[27] https://www.nahb.org/News%20and%20Economics/Housing%20Economics/Indices/Housing%20Opportunity%20Index

Black-White homeownership gap. In many cases, e.g. New York, Chicago, Detroit, St. Louis, Cleveland, greater homeownership gaps are accompanied by higher levels of segregation. In fact, across all MSAs, the correlation between the homeownership gap and the dissimilarity index is 0.419, which suggests that there is a positive association between these two metrics. Otherwise stated, racial segregation and homeownership patterns may be influenced by the same, unobserved factors-- linked to a history of racism in financial and housing markets. There is also evidence that racial segregation has declined in recent years, but income-based segregation has increased.[29]

Figure 1-12: The Black-White Homeownership Gap Tends To Be Higher In More Racially Segregated Areas



Source: 2020 Black Homeownership by MSA from U.S. Census; Dissimilarity data from the Diversity and Disparity Project, Brown University.

1.8 HOME VALUES

As shown in Table 1-2, both median and mean house values of Black owners are lower than other racial/ethnic groups. Due to lower incomes and wealth levels and other credit constraints, Black homebuyers have less capacity to qualify for larger mortgage loans or more expensive homes.

[28] The dissimilarity index of racial segregation ranges from 0 to 100 and measures the percentage of one race that would have to move from one neighborhood to another to have the same racial composition in both neighborhoods.

[29] https://s4.ad.brown.edu/projects/diversity/segregation2010/Default.aspx

Table 1-2: Home Values Are Lower for New Black Home Buyers and Existing Homeowners.

New Home Buyers

	White	Black	Hispanic	Asian
Median	$255,000	$215,000	$225,000	$395,000
Mean	350,194	255,878	288,118	526,061

All Homeowners

	White	Black	Hispanic	Asian
Median	$220,000	$155,000	$200,000	$440,000
Mean	321,114	221,406	282,697	585,080

Sources: HMDA 2018; ACS 2018

There is considerable evidence from prior research that home values in predominantly Black neighborhoods tend to be lower than values in similarly-situated neighborhoods with lower minority concentrations.[30] Research also suggests that neighborhood housing appreciation declines significantly as the share of minority residents increases[31], and this pattern can be observed in neighborhoods where a mere two percent of the residents are Black.[32] These patterns are likely due to segregation and lingering effects of redlining, which over time suppress equity accumulation and intergenerational transfers of wealth.[33]

The differences in home values for Black versus White owners from 1997 to 2018 are presented in Figure 1-13 below. These differences narrowed a bit between 1999 and 2001 but have remained relatively stable ever since. Based on the average home values for all homeowners in 2018, homes owned by Black families had values that were 45 percent below those with White owners.

30 https://www.brookings.edu/research/devaluation-of-assets-in-black-neighborhoods/

31 Blau, F.D. and Graham, J.W. (1990) Black-White differences in wealth and asset composition, *Quarterly Journal of Economics*, 105, 321-33.

32 Flippen, C. (2004). Unequal returns to housing investments? A study of real housing appreciation among Black, White, and Hispanic households. *Social Forces*, 82(4), 1523–1551.

33 https://socialequity.duke.edu/wp-content/uploads/2019/10/Plunder-of-Black-Wealth-in-Chicago.pdf

Figure 1-13: Average Home Values for Black Owners Were 45 % Lower than White Owned Homes in 2018

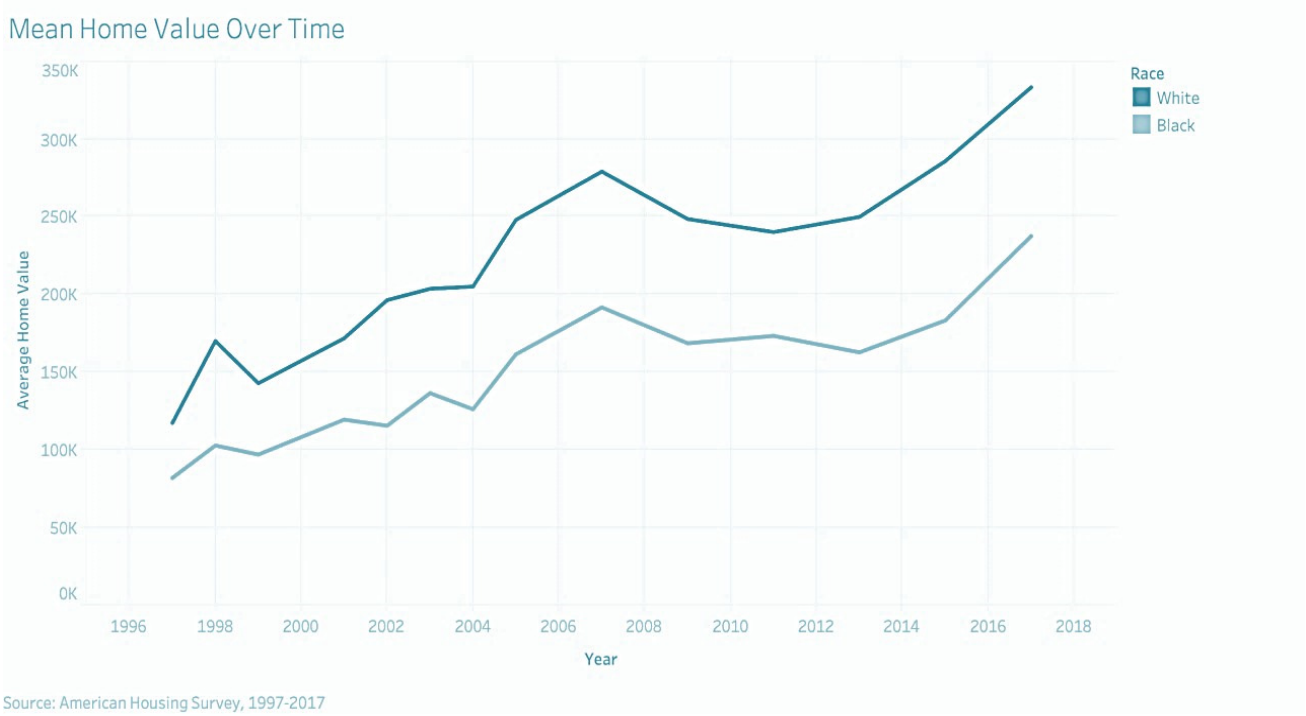
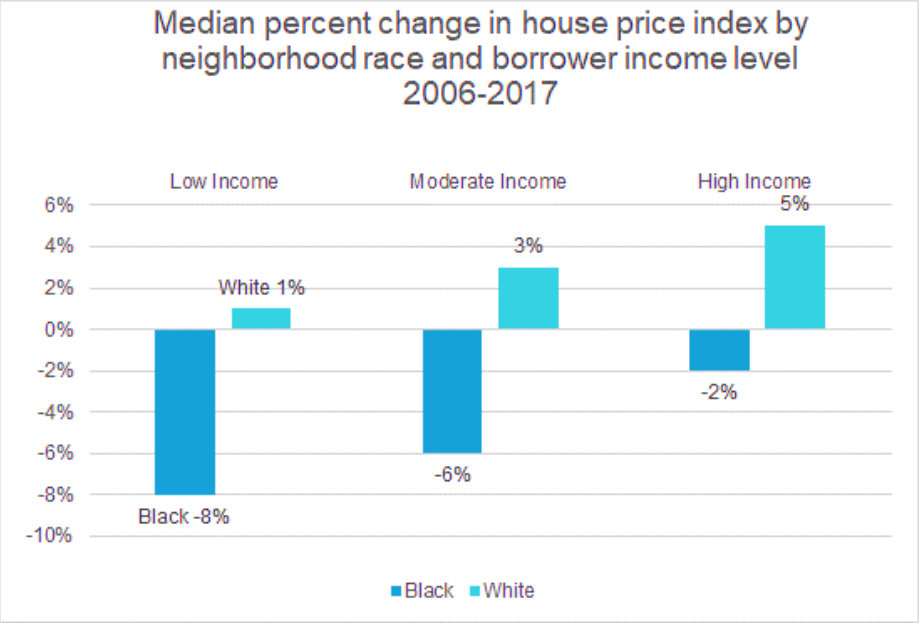


Figure 1-14 depicts the difference in house price appreciation over time for homeowners in neighborhoods with high concentrations of Black versus White households, across income levels. In 2017, home prices in neighborhoods with a high concentration of Black borrowers were 6 percent lower than in 2006. By contrast, home prices in predominantly White census tracts had increased by 3 percent. Also, higher-income borrowers in Black neighborhoods are more likely to have faced negative house price appreciation than lower-income borrowers in mostly White areas. These disparities affect the property taxes charged to Black-owned households relative to White homeowners. For example, recent research suggests that residents of predominantly Black neighborhoods pay higher tax assessments than their White counterparts because tax assessments increase at a faster rate than home values in Black areas. There is also some evidence that Black homeowners were less likely to appeal tax assessments and less likely to win tax assessment appeal cases. [34]

[34] Avenancio-Leon, Carlos and Howard, Troup, The Assessment Gap: Racial Inequalities in Property Taxation (October 5, 2019). Available at SSRN: https://ssrn.com/abstract=3465010 or http://dx.doi.org/10.2139/ssrn.3465010

Figure 1-14: Since the 2008 Crisis, Black Homeowners in all Income Categories Are More Likely To Face Negative House Price Appreciation [35]



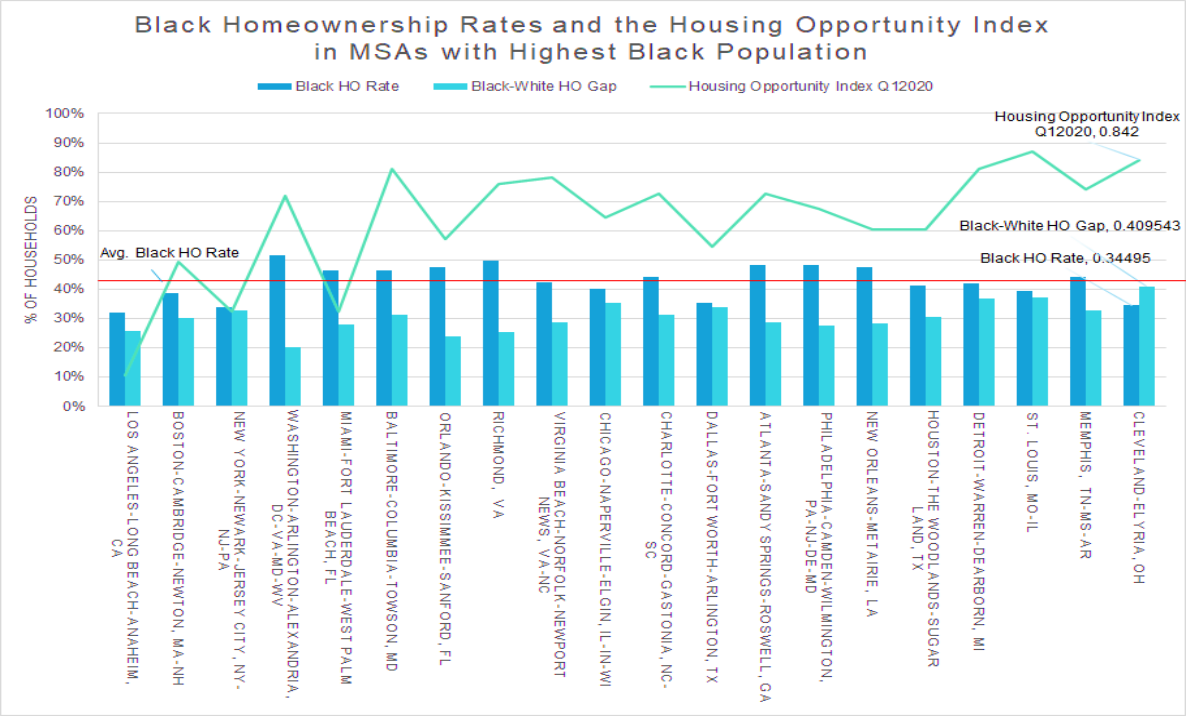
Source: Center for American Progress calculations based on 2006-2017 HMDA; ACS; FHFA Annual House Price Indices

1.9 AFFORDABILITY

For the 20 MSAs with the highest Black population, Figure 1-15 shows the Black-White homeownership gap, the Black homeownership rate, and the Wells Fargo/NAHB housing opportunity index (HOI), a measure of affordability which shows the proportion of the population in an MSA that can afford the median-priced home. Some of the most affordable MSAs include Baltimore, Detroit, St. Louis, Memphis, and Cleveland, yet these MSAs have Black homeownership rates that are at or below average. The Black-White homeownership gap is also relatively high in these MSAs.

[35] Replicated with permission from "Racial Disparities in Home Appreciation: Implications of the Racially Segmented Housing Market for African Americans' Equity Building and the Enforcement of Fair Housing Policies, by Michela Zonta, Center for American Progress, July 15, 2019, https://www.americanprogress.org/issues/economy/reports/2019/07/15/469838/racial-disparities-home-appreciation.

Figure 1-15: The Black-White Homeownership Gap Is Greatest In Some of the Most Affordable MSAs.



Sources: U.S. Census Bureau, American Housing Survey and Wells Fargo/National Association of Home Builders Housing Opportunity Index

1.10 MARKET OPPORTUNITIES FOR BLACK HOMEOWNERSHIP

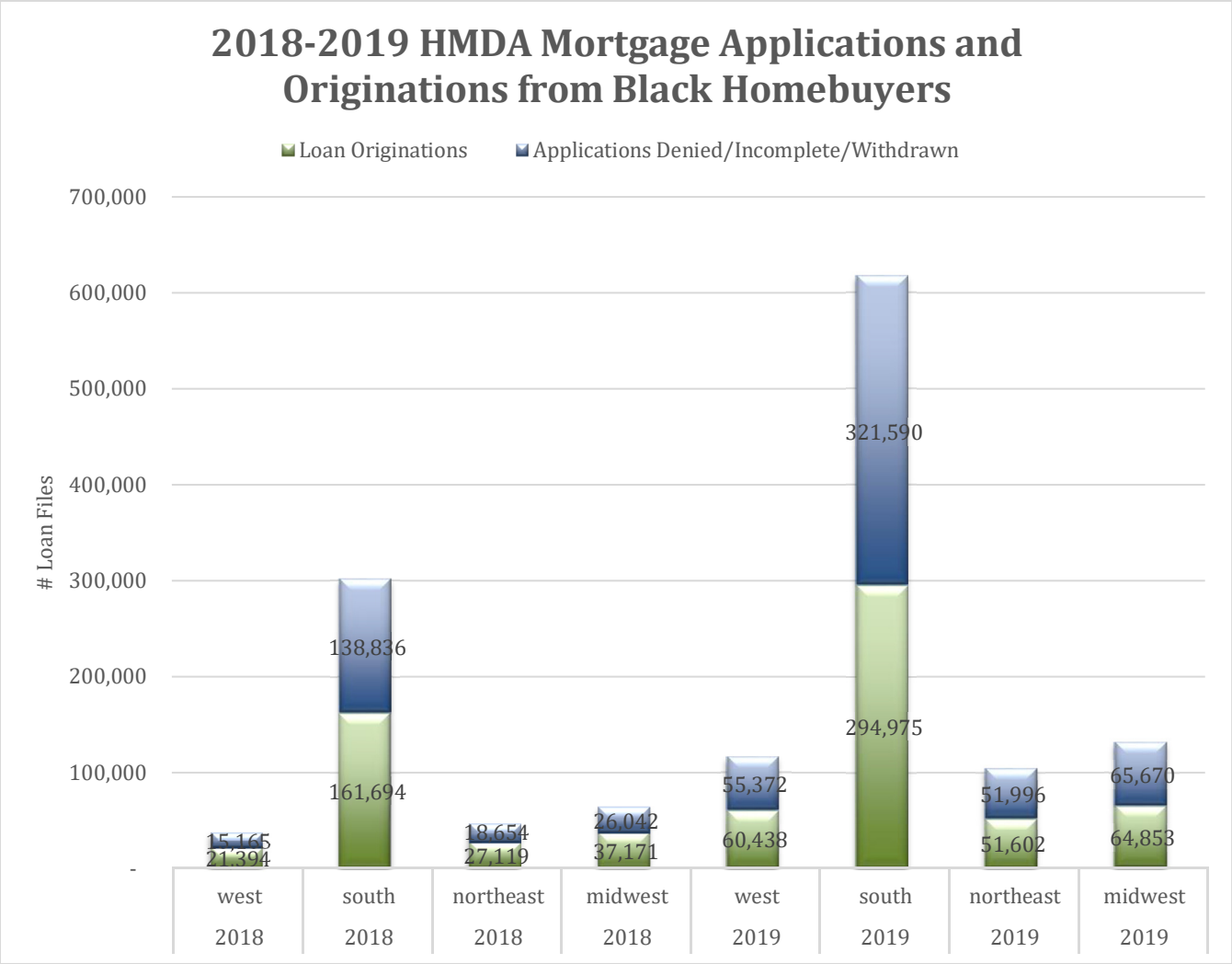
In 2019, approximately 472,000 home purchase mortgages were obtained by Black homebuyers, a marked increase from 2018, when about 247,000 mortgages to Black borrowers were originated. Assuming an average downpayment, this amounts to over $113 billion in home purchases. In addition to the contributions to Black homeownership, these figures represent a potential $6.8 billion in real estate commissions and significant opportunities for real estate professionals who serve these communities. Loan applications from and originations to Black homebuyers nearly doubled between 2018 and 2019.

It is also likely that many of the applications that do not appear as originations in these data were denied or withdrawn for some reason, but ultimately result in approved mortgage loans. Thus, application numbers are also an indicator of market potential. As shown below, there were over 690,000 loan applications that were either rejected, withdrawn, or incomplete in 2018 and 2019.

This chart also shows regional variation in application and lending activity. In both 2018 and 2019, there was almost twice the number of loan applications and originations for Black borrowers in the South as there were in the West, Northeast, and Midwest regions combined. According to recent research released by Freddie Mac, the shortest times required to save for a 3 percent downpayment for Black homebuyers are in the South and Midwest.[36]

[36] "Building the Future with 'Mortgage-Ready' Borrowers," presented by Freddie Mac and Housing Wire, https://sf.freddiemac.com/articles/insights/building-the-future-with-mortgage-ready-borrowers.

Figure 1-16: Lenders Received Over 966,000 Mortgage Applications from Prospective Black Homebuyers in 2019

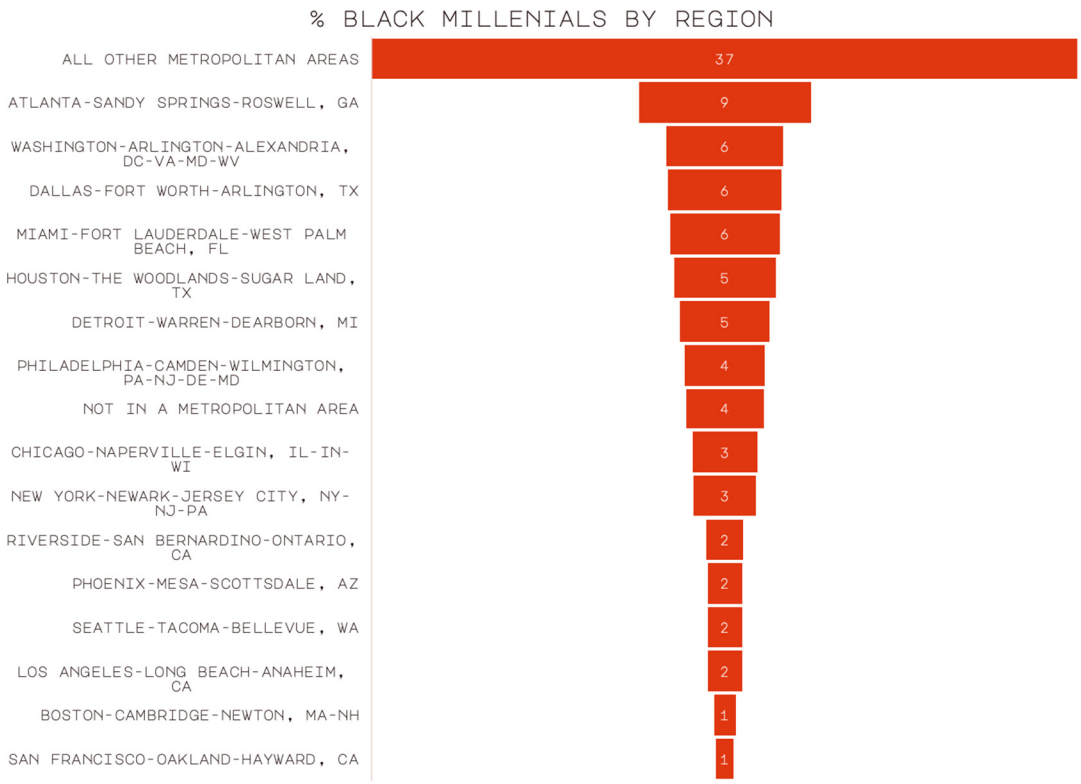


The sheer size and earning potential of the Black Millennial population presents substantial opportunities for expanding Black homeownership. Researchers suggest that due to student loan debt, high house prices, and lifestyle trends such as delayed marriage and parenthood, Millennials have lower homeownership rates than previous cohorts.[37] Still, although some estimates suggest that these factors will delay Millennial homebuying by 7 years or more, 89 percent of Millennials report intentions to become homeowners eventually.[38] Figure 1-17 lists the concentration of Black Millennials by metropolitan area. The highest concentrations of this demographic group reside in the Atlanta, DC, Dallas, and Miami metropolitan areas.

37 "Millennial Homeownership: Why Is It So Low, and How Can We Increase It? Jung Choi, Jun Zhu, Laurie Goodman, Bhargavi Ganesh, Sarah Strochak, July 2018, https://www.urban.org/sites/default/files/publication/98729/millennial_homeownership_0.pdf

38 2018 Millennial Homeownership Report: American Dream Delayed, Chris Salviati and Rob Warnock, https://www.apartmentlist.com/research/2018-millennial-homeownership-report-american-dream-delayed; https://www.nar.realtor/newsroom/student-debt-delaying-millennial-homeownership-by-7-years

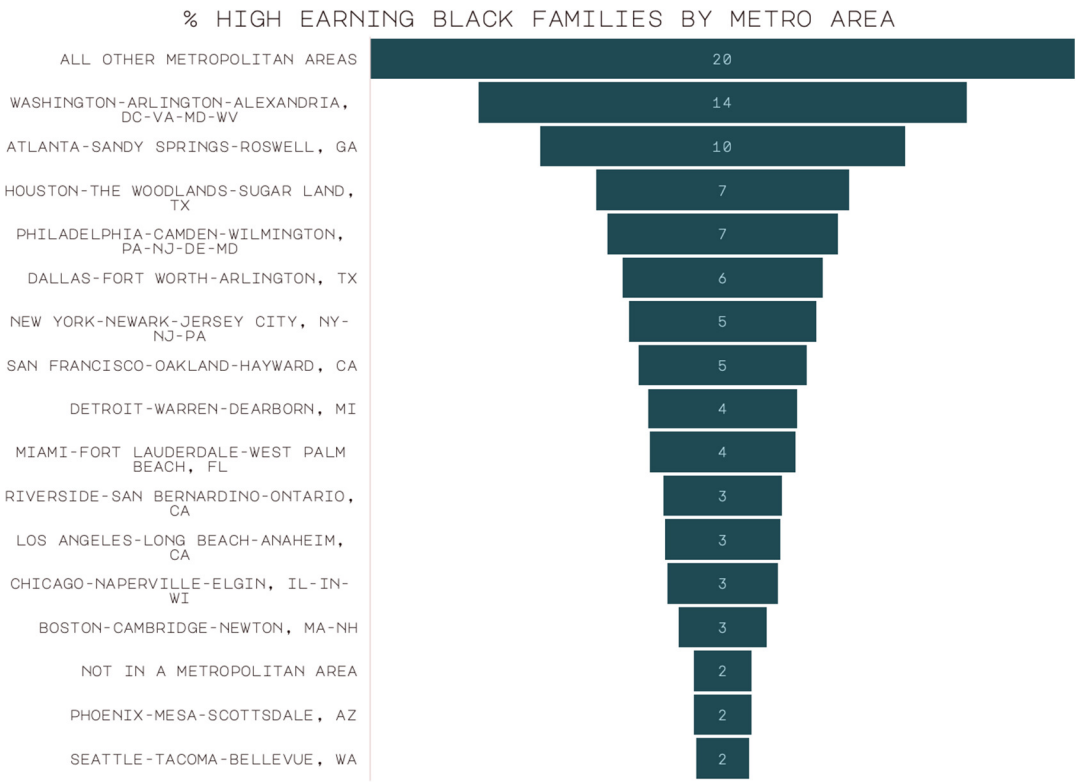
Figure 1-17: Highest concentrations of Black Millennials are in Atlanta, DC, Dallas, and Miami Metro Areas[39]



Another indicator of market potential is the proportion of families earning over $110,000 per year or the top 25 percent of Black earners. Approximately 17 percent of Black households nationwide had incomes over $110,000. These households tend to be concentrated in a relatively small number of metropolitan areas. For example, as shown in Figure 1-18, 14 percent of high-earning Black households are located in the Washington, DC area, and an additional 10 percent are located in the Atlanta area. The Houston, Philadelphia and Dallas metropolitan areas also include relatively high concentrations of high-earning Black households.

[39] 2017 American Housing Survey

Figure 1-18: Highest Concentrations of Black Families Earning Over $110,000 Are in DC and Atlanta Metro Areas[40]



How many of these Black households are prepared to become homeowners? Research sponsored by Freddie Mac, presented in Figure 1-20, suggests that as of 2019, there were approximately 2.9 million Black 'mortgage-ready' households in the U.S. These include potential homebuyers who are under 45 years of age, living in a geographically affordable area where there is an adequate supply of housing and who have the income and credit history to qualify.

[40] 2017 American Housing Survey

Figure 1-19: There Are 3 Million Black Americans Who Could Qualify for a Mortgage[41]

How Many Are "Mortgage Ready"?

Freddie Mac

	Overall Population		African Americans		Hispanics		Young Millennials		Old Millennials	
	Freq (million)	Percent (%)	Freq (million)	Percent (%)	Freq (million)	Percent (%)	Freq (million)	Percent (%)	Freq (million)	Percent (%)
"Mortgage Weak"	56.1	49	11.3	72	14.5	57	11.1	46	17.2	44
"Mortgage Ready"	37.0	32	3.0	19	7.9	31	11.4	47	13.0	33
Mortgage Owner	21.1	18	1.4	9	3.0	12	1.6	7	9.3	24

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

- 37 Million "Mortgage Ready" Overall Population
- 19 percent of African Americans are "Mortgage Ready" (approximately 3.0 Million)

12

Figure 1-20: 'Mortgage Ready' Black Americans Could Save Enough for a 3 % Down Payment in 2.2 Years and 5% Down in 3.6 Years[42]

Time To Save For "Mortgage Ready" Population By Race/Ethnicity

Freddie Mac

Race/Ethnicity	"Time to Save" (year)			Monthly Net Income	Median House Price (SFH)
	20% down	5% down	3% down		
Non-hispanic Whites	14.4	3.6	2.2	$4,326	$243,076
African Americans	15.4	3.8	2.3	$3,679	$215,774
Hispanics	24.5	6.1	3.7	$3,588	$349,351
Asians	23.5	5.9	3.5	$4,485	$428,789

Source: Freddie Mac calculations using anonymized credit bureau data for Sep 2018. Time to Save is calculated by dividing down payment requirements by monthly savings. According to Bureau of Economic Analysis, average personal savings rate is 8.7% of net income in 2018. We estimate net income by subtracting both federal and state taxes from gross income at the individual-level.

41 From "Building the Future with 'Mortgage-Ready' Borrowers," presented by Freddie Mac and Housing Wire, https://sf.freddiemac.com/articles/insights/building-the-future-with-mortgage-ready-borrowers, reprinted with permission.

42 Ibid.

1.11 SUMMARY

In this section, we have provided a detailed overview of the State of Homeownership in Black America. We examined Black homeownership patterns by age, gender, income, wealth, and geographic location. We also presented an analysis of market opportunities for expanding Black homeownership, particularly for Black Millennials, high-earning Black households, and those who have a financial profile that could qualify for a mortgage loan. The next section is focused on the characteristics of the mortgage market and mortgage lending for Black borrowers.

2 STATE OF THE MORTGAGE MARKET FOR BLACK HOMEBUYERS

Taylor and Riley are college graduates and earn a combined $120,000 a year (the median for the area is $112,000). It took nearly 3 years to save enough to make a 3.5% initial down payment due to their $600 in student loan payments and other debts, but finally, once their debt-to-income ratio fell below to the 50%, with a 680 FICO score, they were able to qualify for an FHA mortgage loan at a decent interest rate. In late 2019, they purchased a single-family home for $500,000 in the neighborhood where Riley grew up.

This couple had approximately $17,000 in savings which they used for the downpayment and closing costs on their new home. Because of risk-based pricing (96.5 LTV mortgage, a DTI of 45%, and a FICO score of 680), their rate was 4.71 % compared to 4.57% for the average White FHA borrower. Their monthly payment on their FHA-insured mortgage, including taxes and insurance, is approximately $3,300. Due to the FHA mortgage insurance premiums, a conventional loan might have otherwise saved them $250 per month, but their broker advised them that due to their high DTI ratio and less-than-perfect credit score, he could only guarantee that they would qualify for FHA. Although this outlay wiped out their cash reserves, Taylor was anticipating a salary increase and bonus, which ultimately did not occur due to the pandemic.

2.1 INTRODUCTION

In this section, we highlight the key characteristics of the mortgage market for Black borrowers. As reported in Section I of this report, lenders received over 966,000 mortgage applications from prospective Black homebuyers in 2019, and approximately 472,000 home purchase mortgages were obtained by Black homebuyers. This is a substantially higher number than 2018 when about 247,000 mortgages to Black borrowers were originated. In addition, there were over 690,000 loan applications that were either rejected, withdrawn, or incomplete in 2018 and 2019, which likely includes loans that were originated later. In sum, as of 2019, the number of mortgage loans to Black borrowers was on the rise. It is too soon to know the extent of the impact of the pandemic on this trend.

Table 2-1 lists the top 10 lenders of mortgage loans to Black borrowers based on 2019 HMDA data. These lenders are responsible for 24 percent of all mortgage originations for Black homebuyers. A ranking of the top lenders for loans to Black borrowers is included in a separate Appendum.

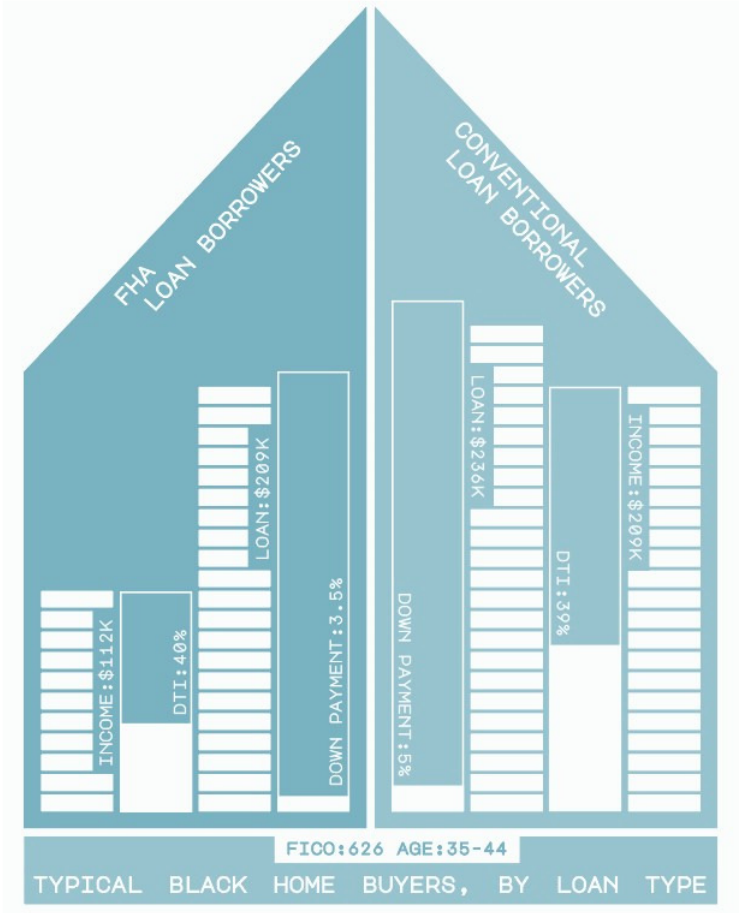
Table 2-1: The Top 10 Lenders to Black Borrowers Accounted for 24 % of the Market in 2019

Lender	Number of Loans to Black Borrowers	% Market for Black Borrowers
Quicken Loans, LLC	26,243	4.93
United Shore Financial Services, LLC	16,364	3.07
Navy Federal Credit Union	12,960	2.43
Freedom Mortgage Corporation	12,913	2.42
Wells Fargo Bank, National Association	11,264	2.12
Nationstar Mortgage LLC	11,015	2.07
Loandepot.Com, LLC	10,036	1.88
Bank Of America, National Association	9,950	1.87
Fairway Independent Mortgage Corporation	9,219	1.73
JPMorgan Chase Bank, National Association	8,439	1.58

Source: 2019 HMDA data analysis, LendingPatterns.com

Figure 2-1 compares the profile of the average Black homebuyers in the FHA versus the conventional mortgage markets. The average Black homebuyer is between ages 35 and 44 and has a FICO score of 626. The average Black homebuyer obtains an FHA mortgage for $209,000, has a DTI ratio of 40 percent, a downpayment of 2.5 percent, and an income of $112,000. In the conventional market, Black homebuyers borrow an average of $236,000, put 5 percent down, have a DTI of 39 percent, and have an average income of $209,000.

Figure 2-1: The Average Black Homebuyer Obtains an FHA Mortgage for $209,000, has a DTI Ratio of 40 %, and an Income of $112,000

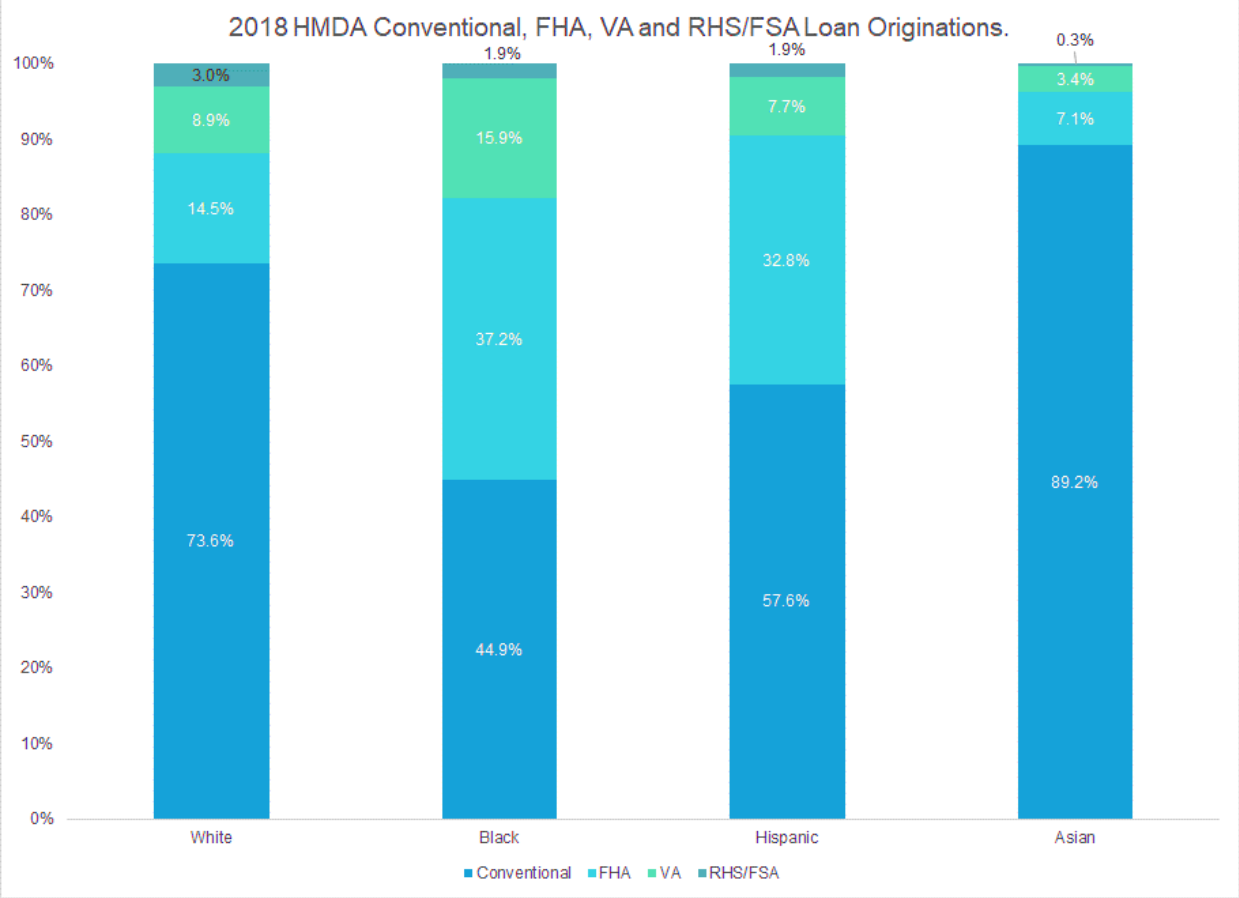


Sources: 2018 HMDA first-lien, owner-occupied, home-purchase, 1-4 family for Black borrowers, all ethnicities; Freddie Mac data from Experian; ACS.

2.2 LOAN TYPE

In 2018, 53 percent of Black mortgage borrowers obtained Federal Housing Administration (FHA) or Veterans Administration (VA) loans, compared to 23 percent of White borrowers. At the same time, 73.6 percent of White homebuyers obtained conventional loans, while 45 percent of Black homebuyers took out conventional mortgages. These differences are summarized in Figure 2-2. The implications of these patterns are discussed further in the section of this report entitled "Mortgage Rates and the Extra Cost for Black Homeowners" (Aronowitz, Golding, and Choi).

Figure 2-2: Black Homebuyers Are More Likely To Obtain FHA/VA Loans

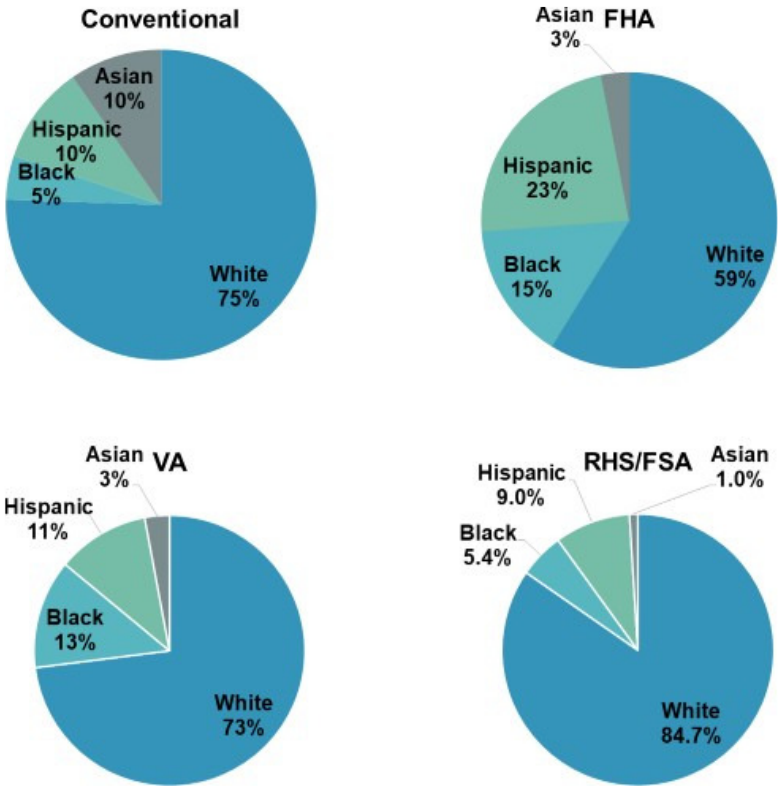


Source: HMDA first-lien, owner-occupied, home-purchase, 1-4 family loans

In terms of market share, as shown in Figure 2-3, White homebuyers comprised 75 percent of the conventional mortgage market, and 14.5 percent of FHA, while Black borrowers accounted for a mere 4.6 percent of the conventional market and 37 percent of FHA. As a point of reference, the Black population in the U.S. is 14.6 percent. The cost implications to homebuyers of these differences can vary depending on interest rates and other factors (see Aronowitz, Choi, and Golding in this report). Approximately half of FHA and VA loans were originated by non-banks, which suggests that Black borrowers are largely being served by institutions that fall outside of the regulatory purview of the Community Reinvestment Act (CRA).[43]

[43] https://www.brookings.edu/bpea-articles/liquidity-crises-in-the-mortgage-market/; https://www.urban.org/sites/default/files/publication/100952/the_community_reinvestment_act_1.pdf

Figure 2-3: FHA and VA Serve a Higher Share of Black Borrowers than the Conventional Market

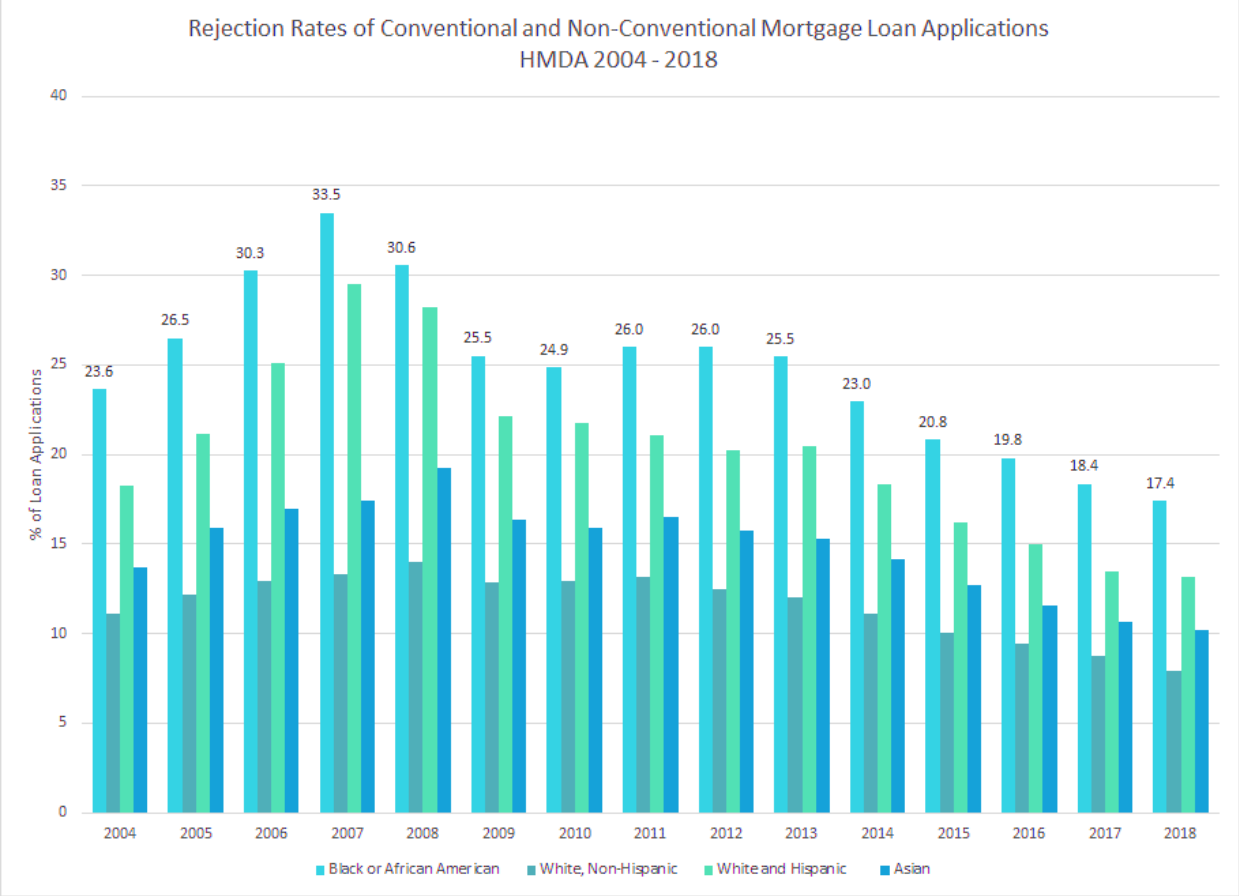


Source: 2018 HMDA first-lien, owner-occupied, home-purchase, 1-4 family loans

2.3 MORTGAGE LOAN DENIALS

As shown in Figure 2-4, Black applicants are more than twice as likely to have their applications rejected, and this has been the case consistently over time. Since the 2008 housing crisis, loan rejection rates have trended downward for all racial/ethnic categories-- possible due to the chilling effects of heightened awareness of mortgage credit tightening.

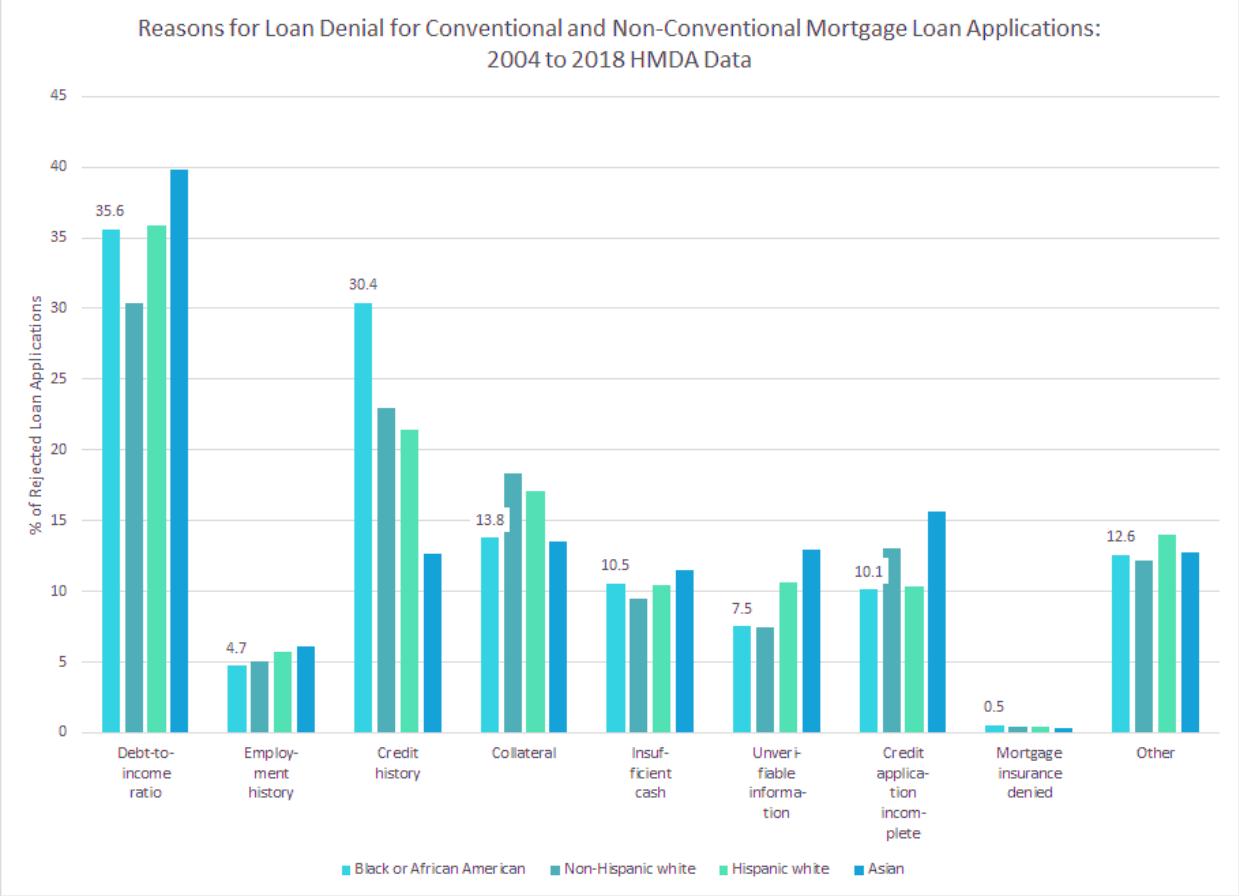
Figure 2-4: Black Applicants Have Higher Denial Rates for Home Purchase Loans, Although These Rates Have Declined for All Borrowers Since 2008



Source: HMDA first-lien, owner-occupied, home-purchase, 1-4 family loans

The HMDA system requires lenders to report a reason for rejecting a loan. There is significant variation in the frequency of these reasons based on the race of the applicant, as presented in Figure 2-5 below. Regardless of race or ethnicity, DTI and credit history are the most common reasons cited for loan rejection. However, the proportion of rejections due to DTI and credit history are significantly higher for Black applicants. In addition, Black applicants were less likely than White applicants to be rejected due to issues with the collateral or incomplete applications. The disparities in the average DTI and credit history for Black versus White borrowers are discussed later in this report as they have major implications for underwriting and loan pricing.

Figure 2-5: Lenders Cite DTI and Credit History as the Most Common Reasons for Rejecting Applications From Prospective Black Homebuyers.



Source: HMDA first-lien, owner-occupied, home-purchase, 1-4 family loans

2.4 WHAT THE GOVERNMENT SPONSORED ENTERPRISES (GSE'S) CAN DO TO NARROW RACIAL INEQUALITY IN THE HOME MORTGAGE LENDING MARKET BY MAURICE JOURDAIN-EARL[44]

Fannie Mae and Freddie Mac purchase approximately half of all home mortgages in the U.S. These entities have been in conservatorship since 2008, although several reform proposals have been discussed. As shown below, the share of conventional loans with Black borrowers eligible for purchase by Fannie and Freddie is significantly lower than the proportion of FHA-insured loans to Black borrowers. Black borrowers disproportionately receive high-cost conventional, and higher-cost FHA loans which the GSE's do not buy. As discussed elsewhere in this report, these loan type differences drive disparities in the access to credit as well as the cost of credit.

[44] Maurice Jourdain-Earl is a noted speaker and writer on HMDA and fair lending practices, and co-founder and Managing Director of ComplianceTech. The company's mission is to help transform the world into a place where credit providers and government agencies' use of technology to help people develop policies, practices, and procedures to monitor and ensure that all creditworthy borrowers have fair access to credit. ComplianceTech is a web-based software development and consulting company that uses technology to help its clients detect discrimination in lending and servicing and has developed tools to help customers prepare and submit HMDA and CRA data to their regulators.

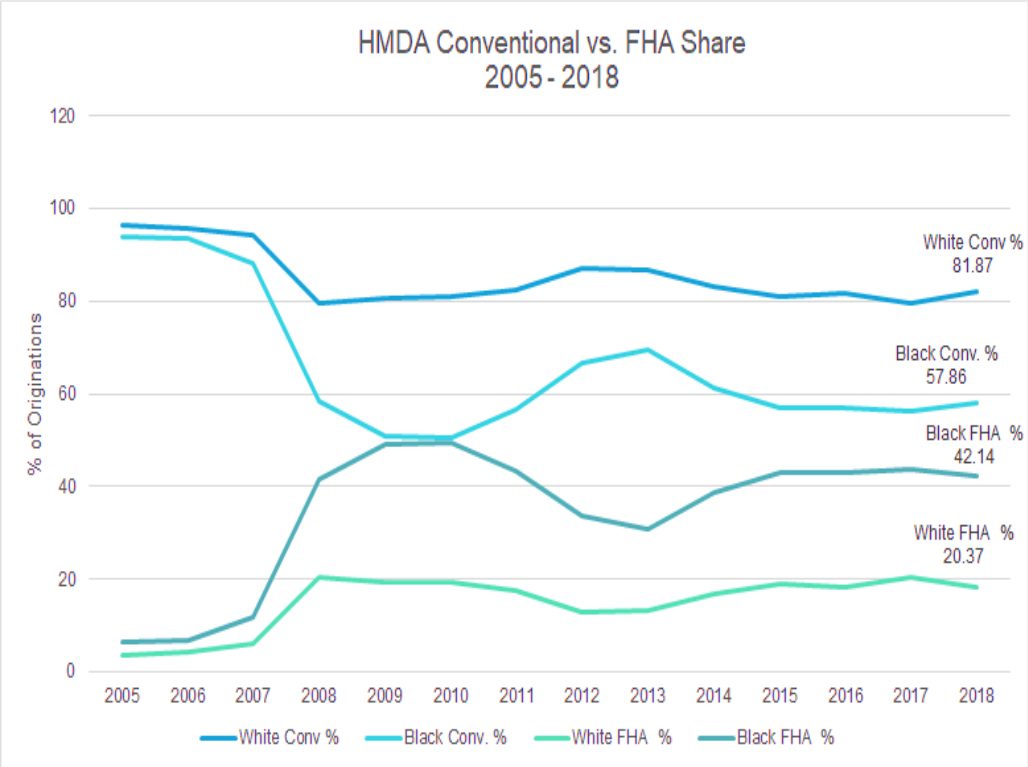
Table 2-2: Over Time, FHA Has Served More Than Twice the Proportion of Loans to Black Borrowers than the Conventional Conforming Market

Borrower Race	Conventional originations	14-year % Share	FHA originations	14-year % Share
White	42,612,709	94.65%	7,248,098	88.05%
Black	2,409,639	5.35%	983,992	11.95%
	45,022,348	100.00%	8,232,090	100.00%

Source: HMDA 2005 - 2018 Conforming 1st lien, owner-occupied, Home Purchase and Refinance Loan Originations

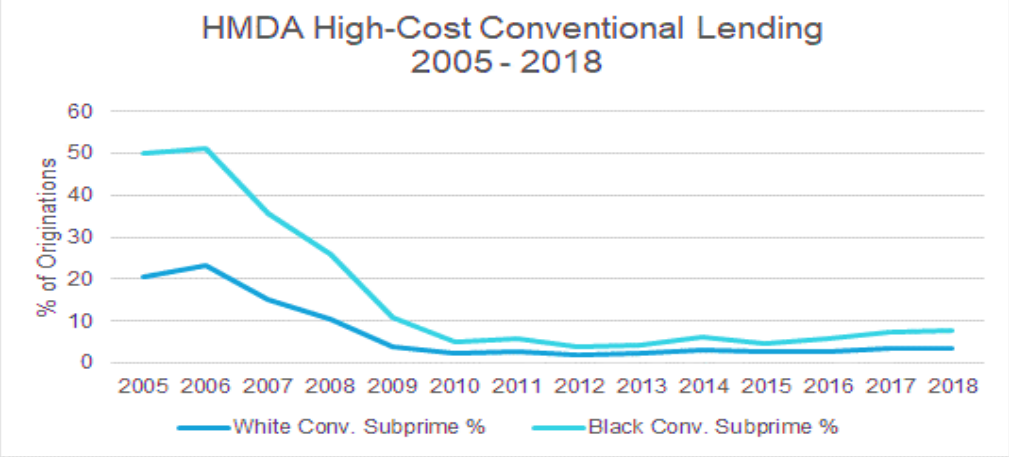
The figure that follows also shows how the proportions of loans made to Black borrowers in the conventional, prime market versus FHA have changed over time. Conventional prime lending to Black borrowers peaked in the years leading up to the 2008 crisis and began to increase from around 2011 to 2013. Since then, the conventional prime share has fallen almost to the levels during the crisis. Meanwhile, since 2013, the share of FHA loans to Black borrowers has increased.

Figure 2-6: In Recent Years, the Proportion of Conventional Loans to Black Borrowers Has Fallen and the Proportion of FHA Loans to Black Borrowers Has Increased



While the proportion of Black borrowers in the conventional prime market has declined since 2013, the proportion of Black borrowers in the conventional high-cost 'subprime' loan market has been increasing during this period.

Figure 2-7: In Recent Years, the Share of High-Cost Conventional Loans to Black Borrowers Has Been on the Rise.



From a public policy perspective, there are a number of ways that Fannie and Freddie's market presence and risk management capabilities could enhance access to credit and homeownership opportunities for Black borrowers. In addition, the Enterprises should be required to incentivize and support the development of loan products and underwriting guidelines to facilitate homeownership in Black communities.

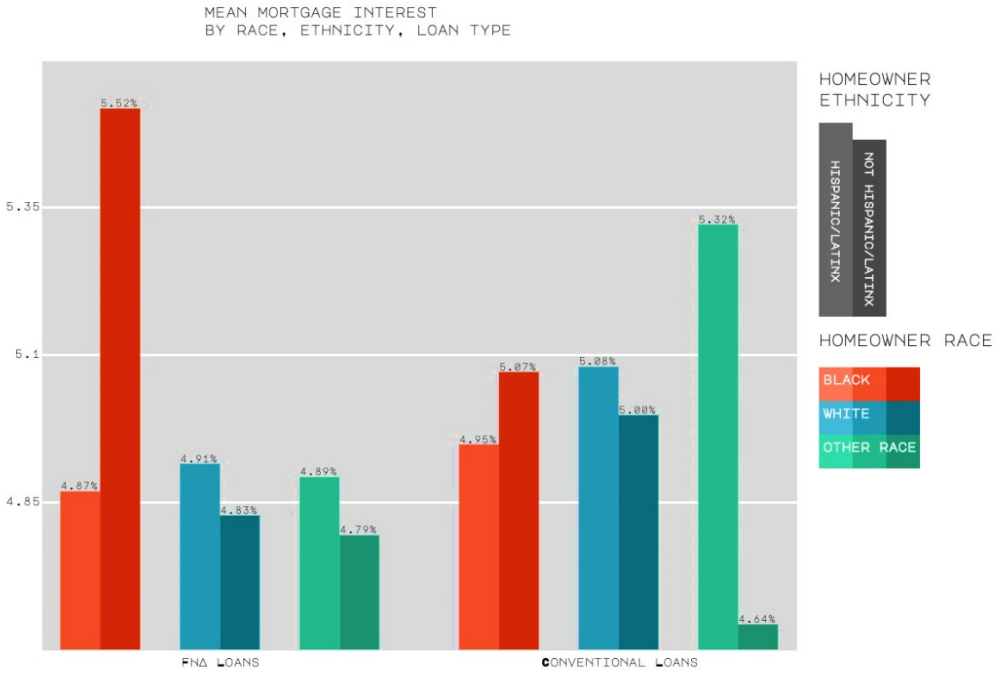
The enterprises should be required to monitor approved lenders for their fair lending performance in addition to their capital adequacy and underwriting compliance. The Enterprises are in a position to enforce fair lending and outreach standards using the same mechanisms that are used to ensure compliance with underwriting guidelines. This could be accomplished by adding a race and ethnicity requirement to the Duty to Serve mandate which is currently designated for very-low, low-, and low-to-moderate income households.

FHFA and the Enterprises should also provide guidance and oversight in the establishment of standards to assess their diversity policies and practices, as stipulated in Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

2.5 INTEREST RATES

As shown in Figure 2-8, based on 2018 HMDA data, Black borrowers pay higher rates on average than White borrowers in both the FHA/VA and conventional markets. The shaded bars represent all ethnicities within the racial category on the left, the bar in the center indicates those who are not Hispanic/Latinx within that racial category, and the bar on the right represents those who are Hispanic/Latinx within the racial category. As stated previously, the grouping of all Hispanic/Latinx homebuyers or households in a single category without accounting for race can significantly mischaracterize underlying patterns. In other words, racial differences matter more than those based on ethnicity alone. For example, in the case of FHA, in 2018 Black non-Hispanic borrowers paid an average of 5.52 percent while Black Latinx borrowers were charged an average of 4.87 percent. White Latinx borrowers paid an average of 4.91 for an FHA loan, compared to 4.83 for White non-Latinx borrowers. Rates for conventional mortgages were lower due to differences in the FHA fee structure, and the rate differentials were much smaller. For conventional loans, Black Non-Latinx borrowers and White Latinx borrowers paid higher rates than White non-Latinx Borrowers.

Figure 2-8: Black Borrowers Pay Significantly Higher Rates for FHA, and Slightly Higher Rates for Conventional Mortgage Loans



Source: 2018 HMDA first-lien, owner-occupied, home-purchase, 1-4 family loans

THE UNEQUAL COSTS OF BLACK HOMEOWNERSHIP

Michelle Aronowitz
Edward L. Golding
Jung Hyun Choi

Mortgages reach an all-time low, rates now at 3.13%.[45] But read the fine print. That's for just some borrowers, typically those with at least 20% down with minimum loan size and stellar credit scores. In fact, there is significant variation in mortgage rates driven by a host of factors, all of which negatively impact African American borrowers. This section of the report quantifies how much more African Americans pay to be homeowners. It's a lot. The overall differences in mortgage interest payments (**$743 per year**), mortgage insurance premiums (**$550 per year**), and property taxes (**$390 per year**) total **$13,464** over the life of the loan, which amounts to **$67,320** in lost retirement savings for black homeowners. These inequities make it impossible for black households to build housing wealth at the same rate as white households.[46] The black-white income gap of $25,800[47] is exacerbated by this "black tax" on homeownership. If we eliminate these extra costs paid by African Americans, the $130,000 black-white gap in liquid savings at retirement[48] would drop by half. Our estimates of the extra costs of black homeownership do not include costs due to higher delinquencies and defaults that inevitably flow from higher interest, insurance, and tax payments and hence likely understate the unequal burden placed on black homeowners.[49]

Although these inequities can be traced to the long history of slavery, segregation, and race discrimination, here we discuss the current policy choices that maintain the disparities and suggest a series of reforms to eliminate them. Our policy analysis focuses on disparate interest rates and mortgage insurance costs, which can be addressed at the federal level. We nonetheless point out that nearly a quarter of the disparity in homeownership costs for black homeowners is due to local property tax assessments. A fair homeownership system must reform these inequitable federal, state, and local policies.

OUR CONCLUSIONS:

Black homeowners pay higher mortgage rates at origination: Over-pricing for perceived risk factors drives a large portion of the differential cost of homeownership for black households. Factors targeted most often are LTV, credit score, and loan size. The

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45 Jeff Rose, "Mortgage Rates Reach Record Lows – Is Now The Right Time To Buy A House?," *Forbes*, July 7,2020, https://www.forbes.com/sites/jrose/2020/07/07/mortgage-rates-reach-record-lows--is-now-the-right-time-to-buy-a-house/#6965817d3de7.

46 As used in this section, "black" and "African American" refer to the HMDA category "black or African American" used to track mortgage data; "white" refers to the HMDA category "NonHispanic white" used to track mortgage data.

47 "2020 State of Housing in Black America," *supra* Figure 1.9, page 21.

48 Urban Institute. Nine Charts about Wealth Inequality in America (Updated). Chart 7: "Black and Hispanic families have less in liquid retirement savings," Oct. 5, 2017, https://apps.urban.org/features/wealth-inequality-charts/chart 7.

49 Bayer, Patrick, Fernando Ferreira, Stephen L. Ross. 2016. "What Drives Racial and Ethnic Differences in High Cost Mortgages? The Role of High Risk Lenders." Economic Research Initiatives at Duke Working Paper Series, https://dukespace.lib.duke.edu/dspace/bitstream/handle/10161/13241/SSRN-id2730894.pdf?sequence=1.

policy decision to risk-based price rather than pool risk drives up interest rates for black homeowners and is one reason black homeowners pay about **$250 per year** more in interest charges, resulting in lost retirement savings of over **$11,000**. According to 2018 and 2019 HMDA data, with respect to all loans, the average interest rate for black homeowners was 12 bps higher than for white homeowners. Note that for the subset of GSE loans, where risk-based pricing is more prevalent, the difference is 20 bps. We use the **12 bps** and the average loan size of **$225,000** to compute the costs of risk-based pricing.

Black homeowners continue to pay higher interest rates post-origination due to the lack of refinancing opportunities: In addition to risk-based pricing, black homeowners pay higher interest rates because they are locked out of refinancing opportunities. When the Federal Reserve Board acts to lower interest rates, white homeowners benefit to a much greater extent than black homeowners. We estimate that the lack of refinancing opportunities results in black homeowners paying approximately another **$475 per year more than white homeowners**, which results in a loss of retirement savings of **nearly $20,000**. To compute the $475 differential cost, we use **21 bps** as the average interest rate differential between black and white homeowners, and **$225,000** for the average loan size.

Of note, the FHA and VA mitigate but do not eliminate these differential effects. FHA and VA account for approximately half of all home purchase mortgages originated to black homeowners. Although FHA does not engage in risk-based pricing, some of the private banks that originate FHA mortgages do. As a result, the average interest rate for black homeowners at the origination of the FHA mortgage, according to 2018 and 2019 HMDA data, was about **6 bps** higher than for white homeowners. For VA mortgages, the differential was similar, at about **7 bps**.

Black homeowners pay more in insurance premiums: In addition to paying higher mortgage rates, black homeowners are more often required to pay insurance premiums, whether for private mortgage insurance or FHA or VA mortgage insurance. The difference on average between what a black homeowner pays and what a white homeowner pays in mortgage insurance costs is **$550** per year, with a resulting **loss in retirement savings of over $23,000**.

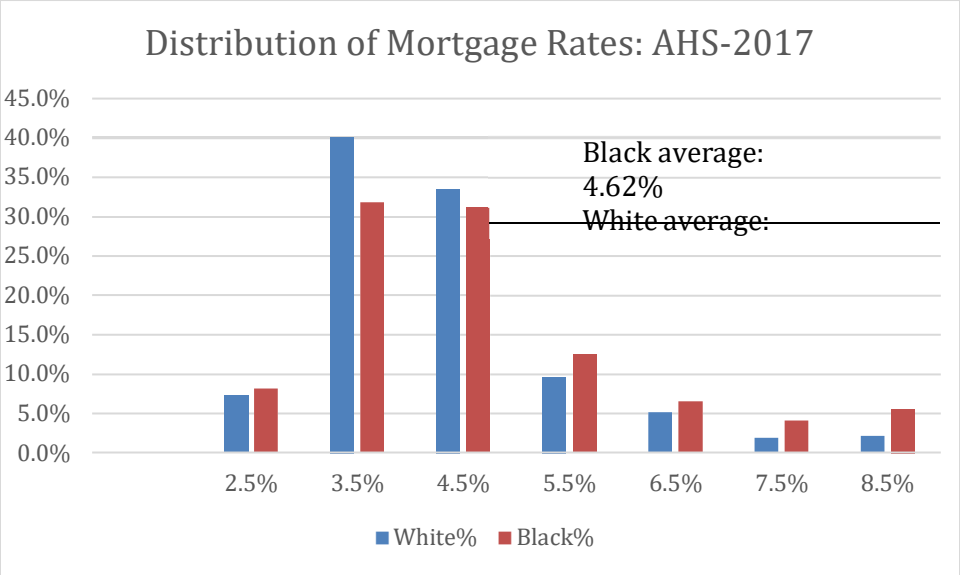
Black homeowners pay higher property taxes: In addition to the extra costs from higher mortgage interest rates and mortgage insurance premiums, recent research shows that black homeowners pay more in property taxes than similarly situated white homeowners. Avenancio-Leon and Howard (2020), relying on a national data set, find that black homeowners bear a **13 percent higher property tax burden than white homeowners** in the same jurisdiction. By the authors' calculation, a black homeowner pays approximately **$390 more per year**, using a median home value of **$207,000**. The authors identify large tax assessment areas and an appeal process that tends to benefit white homeowners as the predominant factors resulting in a higher relative property tax burden on black homeowners. They suggest that a smaller assessment area, one at the zip-code level, would reduce racial inequality in property tax assessments by at least 55-70%.[50]

[50] Avenancio-León, Carlos, Troup Howard. 2020. "The Assessment Gap: Racial Inequalities in Property Taxation." Washington Center for Equitable Growth, https://equitablegrowth.org/working-papers/the-assessment-gap-racial-inequalities-in-property-taxation/.

DATA ANALYSIS:

Black-White Mortgage Rate Disparities

We first calculate the overall interest rate disparities between black and white borrowers, and from there we seek to break out and quantify the component factors that lead to inequitable pricing. Unfortunately, there is no one publicly available data set from which to calculate mortgage price by race. HMDA looks at new originations but not the overall stock, so it does not capture disparities over the life of the loan. The American Housing Survey includes questions about mortgage rates, although it is somewhat limited in that it involves a relatively small sample size, it groups mortgage rates by buckets, and it relies on homeowners' responses. It nonetheless allows us to estimate the total distribution of mortgage rates. Using both HMDA and the AHS, as of the 2017 Survey, we identify that black homeowners pay, on average, **33 bps** more on their mortgages compared to white homeowners.



That may not seem large, but it is. On average, the mortgage balance for black homeowners is approximately $225,000. A 33 bps-differential means an extra **$743 per year** for black homeowners. If a 40-year-old saved $743 per year for 25 years at 4% interest, at retirement, the homeowner would have an extra **$31,000** (which corresponds to $11,600 present value).[51]

Black-White Mortgage Insurance Cost Disparities

Black homeowners also pay more in mortgage insurance, which is part of the overall cost of the mortgage. For a conventional mortgage, if the downpayment is less than 20 percent, the lender typically requires the borrower to purchase private mortgage insurance. FHA

[51] Although our data does not consider payment of points, research has shown that for GSE mortgages, whether points are paid only modestly impacts price discrimination for black and Latinx homeowners. *See* Bartlett, Robert, Adair Morse, Richard Stanton, and Nancy Wallace. 2019. "Consumer-Lending Discrimination in the FinTech Era" 23-24. Haas School of Business at U.C. Berkeley, http://faculty.haas.berkeley.edu/morse/research/papers/discrim.pdf?_ga=2.22372220.679975626.1594361012-57417667.1594361012.

and VA act as the insurer of their mortgages and, as such, collect fees and mortgage insurance premiums from the borrower. These private and government mortgage insurance costs are analogous to the risk premium embedded in risk-priced interest rates.

The black-white mortgage insurance cost differential nearly doubles the black-white interest rate disparity. Relying on HMDA data, only 12% of black homeowners do not pay for mortgage insurance, compared to 38% of white homeowners who do not carry such expense, for a gap of 26%. Private mortgage insurance averages about 75 bps per year, while FHA premiums, including upfront fees, are about 100 bps per year. VA charges a lesser amount for mortgage insurance than FHA. This results in black homeowners paying about **$550** per year more in private or government mortgage insurance premiums than what white homeowners pay for insurance. At retirement, that corresponds to about **$23,000** in lower savings.

POLICY ANALYSIS:

What policies drive the disparities in mortgage rates and insurance premiums?

A. Risk-Based Mortgage Pricing

In today's housing finance system, risk-based pricing is the norm. Mortgage rates increase as downpayments and credit scores decrease. But how to distribute risk—pooled among all borrowers or distributed unevenly among borrowers, is a policy choice. For historical reasons, black homeowners on average have lower credit scores and lower downpayments and thus are disproportionately disadvantaged by risk-based pricing, and yet, that is the pricing system that predominates today.

In part the risk-based pricing stems from decisions by the Government Sponsored Enterprises (Freddie Mac and Fannie Mae), at the direction of their regulator the Federal Housing Finance Agency (FHFA), to charge lenders a higher fee to guarantee these mortgages. Typically, that higher guarantee fee (g-fee) takes the form of a loan-level price adjustment (LLPA), which the lender passes on to the subset of borrowers in the form of higher borrower interest rates. The GSEs charge these LLPAs to cover the perceived higher risk that the mortgage will default. The measurement of this perceived risk—the size and scope of the LLPA—is embodied in GSE models that set aside reserves or capital to cover a possible repeat of the 2008 Great Recession. For example, mortgages with only 5% downpayment to a borrower with a 679 credit score are subject to an LLPA of 2.25%,[52] which corresponds to about an extra 45 bps in the mortgage interest rate.

These capital standards have the effect of placing the burden of staving off a repeat of the 2008 Great Recession on black homeowners, even though black homeowners were primarily the victims of the crisis, not its cause. Nevertheless, the financial recovery has black homeowners paying more for their mortgages because of the misdeeds of lenders and the failure of policymakers to stop bad lending and prevent unnecessaryforeclosures.

Alternatively, the pre-2008 policy failures could be pooled, that is, priced uniformly into all mortgages. (Note this observation has been proposed by Mike Calhoun and Sarah Wolffof

[52] Fannie Mae, Loan-Level Price Adjustment (LLPA) Matrix, Table 1, Aug. 12,2020, https://singlefamily.fanniemae.com/media/9391/display.

the Center for Responsible Lending.[53]) Steps to limit or eliminate risk-based pricing could include FHFA not imposing capital buffers on low FICO or high LTV mortgages or, at a minimum, crediting the LLPAs as capital.[54] The important point is that risk-based pricing is not required for safe lending but is the result of policy decisions that can be safely reversed while continuing to support a profitable mortgage industry.

In addition to the GSEs, another driver of risk-based pricing is the mortgage originator. Mortgage originators risk-based price to account for what they believe are the extra costs to them of originating and servicing these mortgages. FHA, for example, does not risk-based price and the differential mortgage rate for black homeowners taking an FHA mortgage is just 7 bps higher than for white homeowners. Bartlett et al. (2019) surmise that the GSE process should attenuate lender discrimination because the GSEs take on the credit risk of the mortgage, thereby eliminating the risk reduction benefit of private lenders' greater use of credit factors beyond the GSE models.[55] Indeed, the authors suggest that GSE lenders are not insuring against risk so much as profiting from risk-based pricing; they point out that the rate differential above the GSEs' credit risk model represents 16% of lenders' profit per purchase loan and 7% of their profit per refinance loans.[56]

B. Prepayment Differential

Another source of the interest rate disparity is the respective refinance rates of black and white homeowners. Black homeowners refinance less frequently than white homeowners. According to 2019 HMDA data, refinance activity is about 2.5% higher for white homeowners than for black homeowners. On average, when homeowners refinance, they lower their mortgage rates. In 2019, the median interest rate of purchase loans was 4.12%, and the median interest rate of the refinance loan was 3.88%. Accordingly, if black homeowners are not refinancing, they are paying more on their mortgage. While deserving significantly more analysis, it appears that of the **33 bp** difference in mortgage rates, about **21 bps** can be attributed to differential pre-payment rates. This is calculated by subtracting from the 33 bps the differential rates for recent originations (HMDA 2018 and 2019) of 12 bps.

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53 Calhoun, Mike and Sarah Wolff. 2016. "Who Will Receive Home Loans, and How Much Will They Pay?" Urban Institute, https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-finance-reform-incubator/mike-calhoun-and-sarah-wolff-who-will-receive-home-loans-and-how-much-will-they-pay.

54 Goodman, Laurie, Ellen Seidman, Jim Parrott, and Jun Zhu. 2014. "Guarantee Fees - An Art, Not aScience." Urban Institute, https://www.urban.org/research/publication/guarantee-fees-art-not-science.

55 Bartlett, Robert, Adair Morse, Richard Stanton, Nancy Wallace. 2019. "Consumer-Lending Discrimination in the FinTech Era" 30. Haas School of Business at U.C. Berkeley, http://faculty.haas.berkeley.edu/morse/research/papers/discrim.pdf?_ga=2.22372220.679975626.1594361012-57417667.1594361012.

56 Bartlett, Robert, Adair Morse, Richard Stanton, Nancy Wallace. 2019. "Consumer-Lending Discrimination in the FinTech Era" 19. Haas School of Business at U.C. Berkeley, http://faculty.haas.berkeley.edu/morse/research/papers/discrim.pdf?_ga=2.22372220.679975626.1594361012-57417667.1594361012,

Average Interest Rate at Origination: HMDA 2018 & HMDA 2019

	HMDA 2018			HMDA 2019		
	White	Black	Delta	White	Black	Delta
Conventional	4.78	5.03	0.25	4.29	4.44	0.15
FHA	4.83	4.9	0.07	4.32	4.38	0.06
VA	4.57	4.69	0.12	4.10	4.13	0.03
RHS/FSA	4.71	4.76	0.05	4.14	4.16	0.02
Total	4.77	4.92	0.15	4.26	4.35	0.09

As approximately two-thirds of the overall interest rate differential can be attributed to differential refinancing opportunities, it is important to identify both what drives these differential prepayment rates and whether the prepayment rates are priced into the mortgage upfront, as any fair risk pricing model would do. After all, there is no additional credit risk added to the economy when a mortgage is refinanced to a lower rate, while there is a significant financial benefit to the lender when the borrower holds the mortgage at above-market rates.

Research points to a host of factors accounting for refinancing rate disparities; one of those factors is the higher rejection rates for black applicants. Barlett et al. (2019) have shown that lenders reject at least 6% of creditworthy black and Latinx applicants. Between 2009 and 2015, across all lenders, this amounts to a rejection of between 0.74 to 1.3 million creditworthy black and Latinx applications. Relative to white borrowers, lenders reject black and Latinx borrowers for purchase loans 9.6 percentage points more often and for refinance loans, 7.3 percentage points more often.[57]

But disparate credit denials are not the only explanation for slower refinance raters. Other factors include the many credit policies that limit refinancing, which differentially hurt black homeowners. Many borrowers will be told upfront that they do not qualify because of debt-to-income and/or loan-to-value thresholds, even though they already have a mortgage and are current. Or past delinquencies will disqualify the refinance. Yet, the refinance would reduce risk and the mortgage was marketed as fully prepayable.

Even so, the question remains, why should refinancing less frequently result in higher and not lower mortgage rates? The work of Woodward (2008), for example, suggests that slower prepayment rates may more than offset higher default rates.[58] Nonetheless, there has been a policy decision to price credit risk, but not prepayment risk. As a result, black homeowners do not benefit to the same extent as white homeowners when the Federal Reserve Board cuts interest rates to support the economy. At a minimum, to the extent that risk-based pricing continues—and we strongly recommend it not—FHFA and mortgage lenders should incorporate pre-payment rates into their pricing models.

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[57] Bartlett, Robert, Adair Morse, Richard Stanton, Nancy Wallace. 2019. "Consumer-Lending Discrimination in the FinTech Era" 29. Haas School of Business at U.C. Berkeley, http://faculty.haas.berkeley.edu/morse/research/papers/discrim.pdf?_ga=2.22372220.679975626.1594361012-57417667.1594361012.

[58] Woodward, Susan E. 2008. "A Study of Closing Costs for FHA Mortgages." Department of Housing and Urban Development and Urban Institute, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1341045.

C. Mortgage Insurance

For GSE loans with downpayments of at least 20% of the value of the house, no mortgage insurance is needed. Otherwise, for FHA and VA mortgages, and for GSE mortgages where the downpayment is less than 20%, the borrower is required to pay mortgage insurance premiums. It is well documented that downpayments tend to come from relatives. But black homeowners typically do not have relatives who can provide significant downpayment assistance.[59] Moreover, the layering of risk-priced mortgage rates and mortgage insurance fees (another form of risk-pricing), overcharges black homeowners for policy failures that should be more broadly borne. These policies unfairly charge black homeowners more relative to white homebuyers and relative to risk and need to be replaced with policies that promote more equitable outcomes.

Alternative policies that would greatly reduce the disparate costs borne by black homeowners include tax credits for first-time homeowners, which could be used as a downpayment to reduce the effect of risk-based pricing and the need for mortgage insurance. Another policy option is to create a government-supported insurance program that makes mortgage payments in the event of unemployment or disability. Such programs exist in other countries.

D. Additional Factors that Unfairly Raise the Cost of Black Homeownership

The above policy choices such as risk-based pricing, the limited availability of downpayment assistance, the questionable need for multiple layers of risk premiums, how we deal with refinancing, and how we assess property tax burden are significant, calculable factors driving the higher cost of homeownership for African Americans. But there are more.

Below is a partial list of factors that also contribute to the higher cost of homeownership for black homeowners, all of which should be quantified and eliminated (not necessarily in that order):

- Lower appraisals in black communities, leading to higher LTV ratios and thus higher interest rates (in contrast to the higher tax-assessed value for black-owned properties relative to comparable white-owned properties). Research by Perry et. (2018) shows that "[t]he devaluation of majority-black neighborhoods is penalizing homeowners in black neighborhoods by an average of $48,000 per home, amounting to $156 billion in cumulative losses."[60]
- Less competition among mortgage originators in black communities, leading to higher mortgage prices in those areas.[61]

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[59] Dana Anderson, "Redlining's Legacy of Inequality: $212,000 Less Home Equity, Low Homeownership Rates For Black Families," Redfin, June 11, 2020, https://www.redfin.com/blog/redlining-real-estate-racial-wealth-gap/.

[60] Perry, Andre, Jonathan Rothwell, and David Harshbarger. 2018. "The devaluation of assets in black neighborhoods: The case of residential property." The Metropolitan Policy Program at Brookings, https://www.brookings.edu/wp-content/uploads/2018/11/2018.11_Brookings-Metro_Devaluation-Assets-Black-Neighborhoods_final.pdf; *see, e.g.,* Debra Kamin, "Black Homeowners Face Discrimination in Appraisals," *New York Times*, Aug. 25, 2020, https://www.nytimes.com/2020/08/25/realestate/blacks-minorities-appraisals-discrimination.html.

[61] Bayer, Patrick, Fernando Ferreira, and Stephen L. Ross. 2016. "What Drives Racial and Ethnic Differences in High Cost Mortgages? The Role of High Risk Lenders." Economic Research Initiatives at Duke Working Paper Series, https://dukespace.lib.duke.edu/dspace/bitstream/handle/10161/13241/SSRN-id2730894.pdf?sequence=1.

- Steering black homeowners to higher-cost products.[62]
- Higher rejection rates, leading black homeowners not only to miss out on refinance opportunities but to shop less for purchase and refinance mortgages and acceptthigher interest rates.[63]

Costs that flow from these and other inequitable practices drive some of the higher interest rates and mortgage insurance costs discussed above and result in the higher cost of homeownership.

CONCLUSION

Over $50,000 of the wealth differential at retirement can be attributed just to the fact that black homeowners pay more for homeownership due to higher mortgage rates and greater mortgage insurance premiums. This amount does not account for the wealth differential due to higher residential property taxes paid by black homeowners. The policy response should not be to try to justify the differential but to eliminate it. This paper outlines and sizes the various components of the differential cost of homeownership, while suggesting policy alternatives to reduce and/or eliminate the disparities. While more research is always helpful, we know enough to make substantial improvements now.

[62] Steil, Justin P., Len Albright, Jacob S. Rugh, and Douglas S. Massey. 2018. "The Social Structure of Mortgage Discrimination." Housing Studies33 (5): 759–76, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6084476/; Hanson, Andrew, Zackary Hawley, and Hal Martin. 2017. "Does Differential Treatment Translate to Differential Outcomes for Minority Borrowers? Evidence from Matching a Field Experiment to Loan-Level Data." Federal Reserve Bank of Cleveland, Working Paper no. 17-03. https://doi.org/10.26509/frbc-wp-201703.

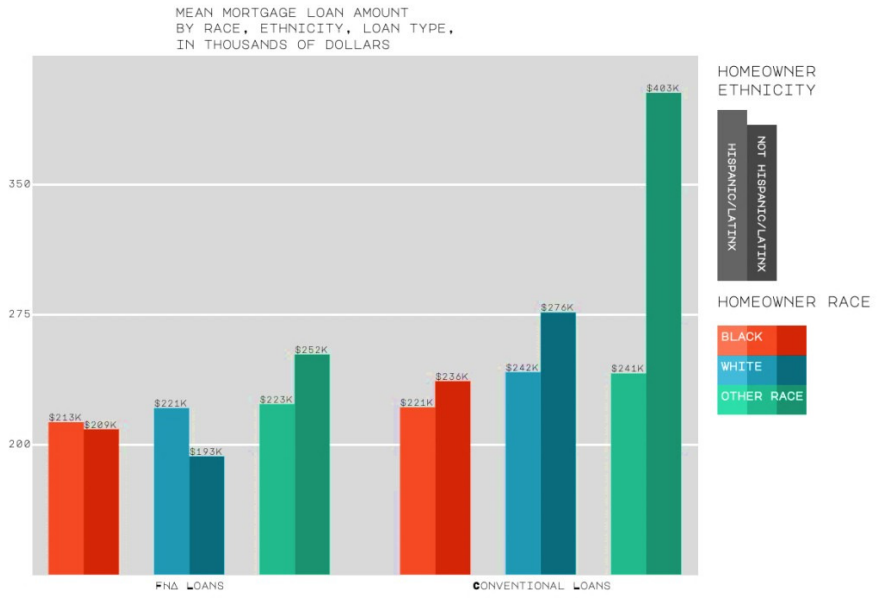
[63] Bartlett, Robert, Adair Morse, Richard Stanton, Nancy Wallace. 2019. "Consumer-Lending Discrimination in the FinTech Era" 6. Haas School of Business at U.C. Berkeley, http://faculty.haas.berkeley.edu/morse/research/papers/discrim.pdf?_ga=2.22372220.679975626.1594361012-57417667.1594361012.

2.6 LOAN SIZE

Loans insured by FHA and conventional, conforming loans are subject to loan limits by statute. For example, FHA's 2019 loan limit ('floor') of $314,827 is set at 65 percent of the conforming loan limit for conventional loans, which was $484,350. In areas designated as 'high cost', which are 70 metropolitan areas and counties where the median home price is more than 115 percent of the loan limit, the FHA loan limit is set at 150% of the national conforming limit and was $726,525 in 2019. Based on changes in house prices in the prior year, FHFA increased these loan limits by 5.38 percent in 2020. As a result, we would expect FHA loan amounts to be on average, lower than conventional loan sizes.

However, for Black borrowers, there was insignificant variation in loan sizes for FHA compared to conventional loans. Figure 2-9 shows the average single-family home purchase loan amount for Black borrowers was $209,000 and $213,000 Black Hispanic borrowers in 2018 for FHA, and $236,000 and $221,000, respectively for conventional originations. By contrast, White FHA homebuyers borrowed on average $193,000 in FHA loans and $276,000 in conventional loans. Loan amounts for the Other Race category include loans made to Asian borrowers and are significantly higher than loans to Black and White borrowers, due in part to differences in geographic concentration in high-cost areas, such as California. In addition, racial disparities in income and other financial characteristics, as discussed elsewhere in this report, have a direct impact on the size of loans for which borrowers can qualify.

Figure 2-9: FHA and Conventional Loan Sizes Are Similar for Black Borrowers



Source: 2018 HMDA first-lien, owner-occupied, home-purchase, 1-4 family loans

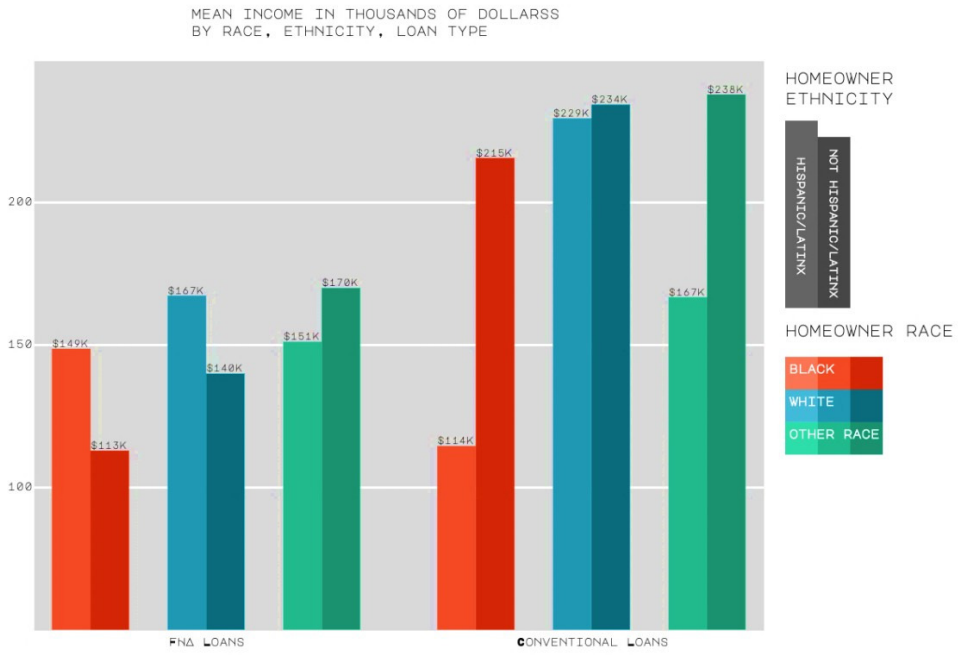
2.7 MORTGAGE UNDERWRITING CRITERIA

Mortgage underwriting models rely on traditional measures of credit reputation, capacity, and collateral, which due to cumulative disadvantage and systemic inequality, suppress opportunities for Black homeownership. Below, we highlight key characteristics of Black homebuyers that affect access to and costs of mortgage credit.

2.8 BORROWER INCOME

Since incomes for Black families and households are lower on average than they are for White families and households, these same disparities play out in the housing market. In addition, patterns based on racial differences are distinct from differences based on ethnicity. As presented in Figure 2-10, in 2018, Black, Hispanic/Latinx FHA borrowers had an average annual income of $149,000 and Black non-Hispanic FHA borrowers had an annual income of $103,000. White non-Hispanic FHA borrowers had an average income of $140,000, while White Hispanic FHA borrowers' incomes were $167,000. Average incomes for Other non-Hispanic races were significantly higher than Other Races of Hispanic ethnicity. Incomes were similar for Black and White borrowers if they were of Hispanic ethnicity.

Figure 2-10: Black Conventional Borrowers Earn on Average $65,000 a Year More Than Black Borrowers in the FHA Market



Not surprisingly, conventional borrower incomes were generally higher than those of FHA borrowers, and Black borrowers had lower incomes than White or Other Races. Black borrowers of Hispanic/Latinx origin also had significantly lower incomes than White Hispanic/Latinx borrowers. Perhaps the most striking takeaway from this chart is the stark difference between FHA and Conventional borrowers' income profiles. These are clearly two distinct market segments. The average income for a Black FHA loan borrower was $113,000, versus $215,000 for the average Black conventional borrower.

Table 2-3: Black Homebuyers and Owners Have Lower Incomes than Their White Counterparts

New Home Buyers – HMDA 2018				
	White	Black	Hispanic	Asian
Median	$84,000	$69,000	$68,000	$111,000
Mean	$299,970	$158,190	$200,843	$221,153
All Homeowners – ACS 2018				
	White	Black	Hispanic	Asian
Median	$79,000	$61,400	$68,500	$110,000
Mean	$106,792	$79,569	$87,743	$145,105

Source: 2018 HMDA first-lien, owner-occupied, home-purchase, 1-4 family loans

2.9 DOWN PAYMENTS AND LOAN-TO-VALUE RATIOS

Black homebuyers, due to savings and net worth differentials, tend to make lower down payments, and as such, start off with less equity than members of other groups and pay more in mortgage insurance premiums. For example, the median downpayment amount for Black homebuyers is 3.5 percent-- which reflects the fact that approximately 53 percent of mortgages made to Black borrowers are FHA- or VA-insured. In contrast, the median downpayment amount for White homebuyers in 2018 was 10 percent.

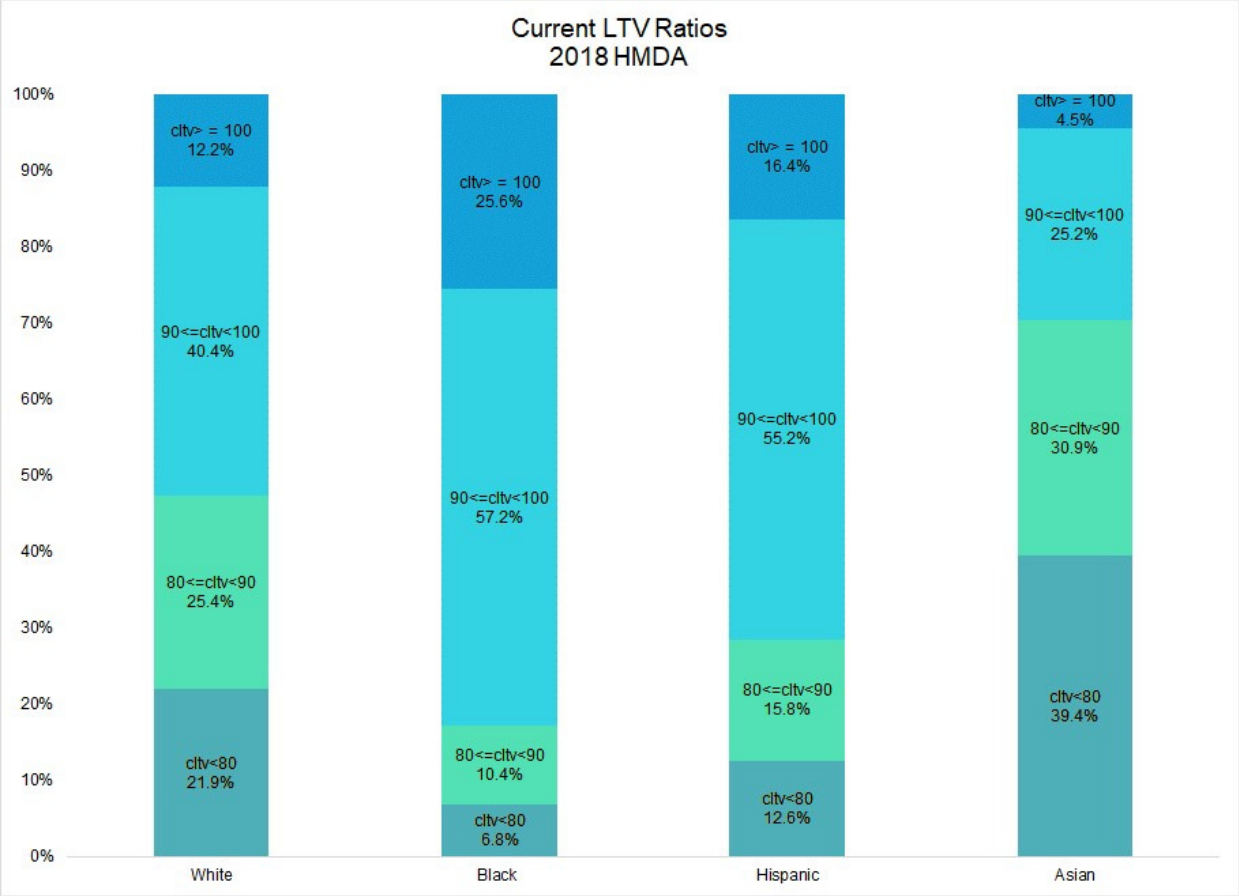
Table 2-4: Black Homebuyers Have Higher LTVS on Average, Consistent with a Higher Proportion of FHA Lending

New Home Buyers - HMDA 2018				
	White	Black	Hispanic	Asian
Median	90%	96.50%	96.50%	80%
Mean	85.20%	93.60%	90.40%	79.20%

Source: 2018 HMDA first-lien, owner-occupied, home-purchase, 1-4 family loans

Figure 2-11 shows current LTVs by racial/ethnic group. Over a quarter of Black homebuyers have CLTVs of 100 percent or more, which means they enter homeownership with no equity. High LTVs in turn result in higher rates via loan-level price adjustments (LLPAs).

Figure 2-11: Loans to Black borrowers Are Significantly More Likely to Have LTVs > 90%.



Source: 2018 HMDA first-lien, owner-occupied, home-purchase, 1-4 family loans

2.10 CREDIT SCORES

Previous studies have found that Black borrowers pay higher costs for credit and higher transaction costs than similarly situated Whites. Because of cumulative disadvantage, lower, and less stable incomes, and lower levels of home equity available to offset income shocks, Black borrowers tend to have fewer resources for payments, and therefore will be more likely to make delinquent payments. As a result, Black borrowers have a lower median FICO score of 626; the median FICO score for White borrowers is 751. Scores that fall below 700 may be charged higher interest rates on mortgages, as well as credit cards and other forms of credit. A FICO score of below 670 is considered 'subprime,' which lenders consider the highest risk category. Loan applications with a subprime FICO score are significantly more likely to be rejected. At best, even if approved, 'risk-based' pricing, a standard industry practice, requires these borrowers to pay a significant premium.

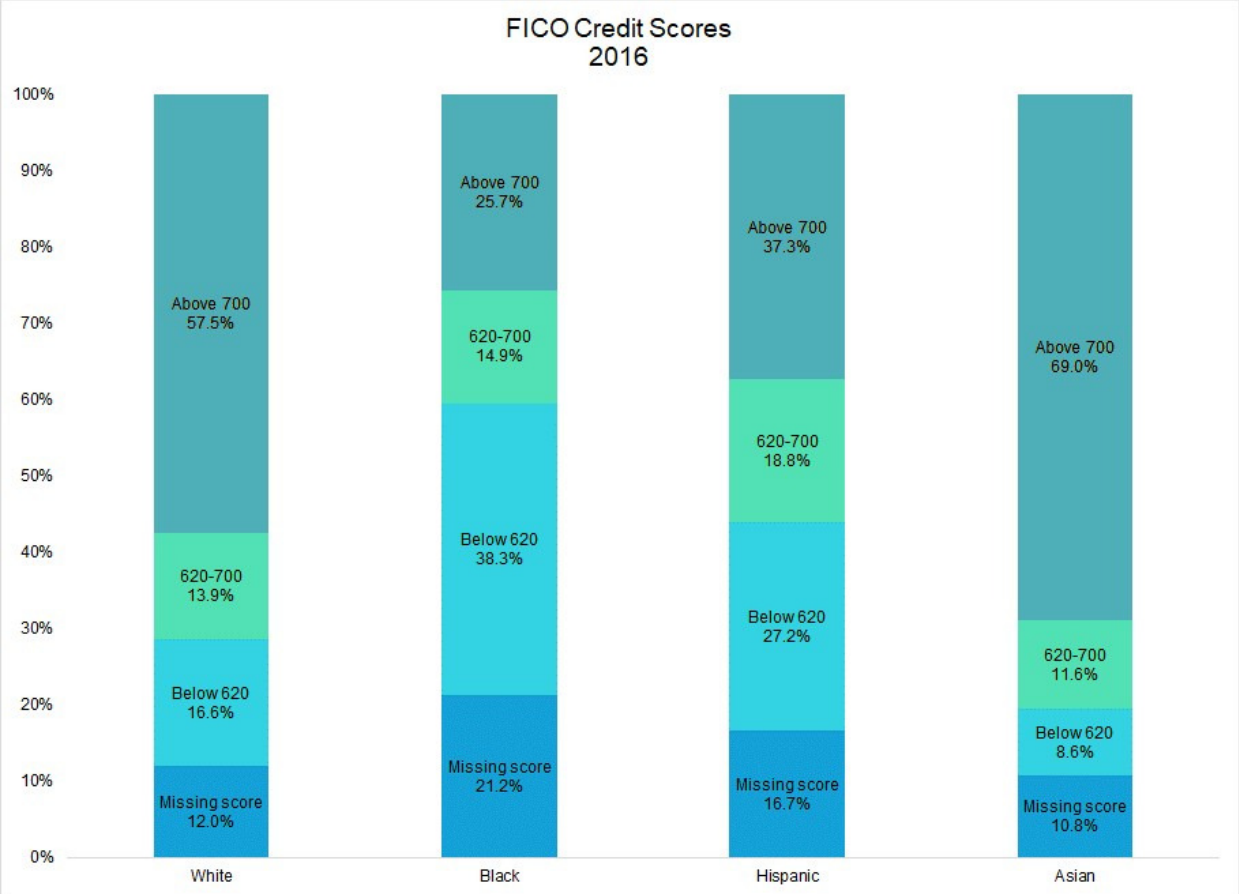
Table 2-5: Median FICO Scores Are Lower for Black People with Credit Files Due To Economic Disadvantage Over Time

Median FICO Score			
White	Black	Hispanic	Asian
751	626	685	770

Source: 2016 Experian data from Freddie Mac

Another important consideration is that 21 percent of the Black population has no credit score, compared to 12 percent of Whites. This is the case because Blacks are less likely to have files in the traditional credit system which are used as the basis for credit scores[64].

Figure 2-12: Black Borrowers Are More Likely to Have Missing FICO Scores and Credit History Challenges



Source: Experian data from Freddie Mac 2016

64 CFPB (Consumer Financial Protection Bureau). 2016. "Who Are the Credit Invisibles? How to Help People with Limited Credit Histories." Washington, DC: CFPB.

CREDIT SCORING HAS BOTH DIRECTLY AND INDIRECTLY AFFECTED THE ABILITY OF PEOPLE OF COLOR TO ACCESS LOW-COST HOME LOANS

Richard K. Green
Ashlyn A. Nelson

The most direct impact is on people who have no credit scores at all—those who are called "credit-invisibles," and those with thin or stale credit files. These people are precluded from gaining access to mortgage credit, though no evidence indicates that they are bad credit risks. For example, someone who has always paid their phone bill and rent on time gets no "credit" for doing so, and yet is almost certainly a good credit risk. According to the Consumer Finance Protection Bureau, African-Americans of prime home-buying age are twice as likely to be credit-invisible as non-Hispanic whites.[65]

The influence of credit invisibility on mortgage lending also affects those who have good credit scores. Consider a couple, where one person is credit invisible, and the other has a strong credit score. Lenders will advise the couple to have one loan applicant—the member with the credit score. As a result of this, the couple's measured income is lower than their actual income, meaning that they might fail lenders' debt-to-income (DTI) test. In other words, if both members of the couple earn the same income, the DTI will appear on the loan application to be twice the size that it actually is. Thus a couple where one person has a strong credit score, the other has no history of poor credit performance, and where income is more than sufficient to meet any reasonable ability to repay requirement, could wind up unable to get a mortgage.

Even more insidious is how credit scores perpetuate inequities across generations. Consider two young adults who work equally hard and finish college. One has parents who are sufficiently wealthy to pay for college; the other must borrow to pay for college. By definition, the child of the wealthy parents has a smaller debt burden, and is therefore in a much better position to achieve a top credit score, than the child of the parents who are unable to pay for college. Data demonstrate time and again that a non-Hispanic white child is much more likely to have parents with the ability to pay than children from other races and ethnicities (see, e.g., Consumer of Survey Finances 2016). Thus, on average, being born white is a ticket to a better credit score in young adulthood. This advantage is one of the many underlying causes of the homeownership gap between white and non-white households, which perpetuates the wealth gap.

Recent credit scoring innovations, such as the FICO Resilience Index piloted in summer 2020, are likely to exacerbate these gaps. The FICO Resilience Index is a composite score ranging from 1 to 99 that measures the ability of consumers to continue making payments on debt during times of economic stress. Scores ranging from 1 to 44 indicate that a consumer is likely to be able to continue making payments during economic downturns, while scores above 77 indicate less resilience. In the near future, lenders may begin using the Resilience Index alongside traditional credit scores in their lending decisions. On average, people of color earn lower incomes and have lower levels of savings and wealth,

[65] See https://www.consumerfinance.gov/data-research/research-reports/data-point-credit-invisibles/. Accessed July 13, 2020.

so they have fewer resources upon which to draw when facing economic stress. Therefore, the Resilience Index is likely to disparately disadvantage people of color and widen the gap in access to credit.

How may we reverse this? Financial inclusion in the formal banking sector is a necessary first step toward ensuring all Americans may establish a credit history. We need to make bank accounts freely and inexpensively available so that everyone who wants one has one. Currently, about 32 million American households are unbanked or underbanked.[66] Bank charters are valuable (particularly during times like now, when banks may borrow at close to zero cost). Banks should be required to help communities that have been ignored in exchange for those charters.

Another method for reducing the population of credit invisibles is to model good savings and spending behavior by looking into checking and savings accounts to observe reliable rent and utility payments and correlate them to loan performance. Credit scoring agencies could then adapt their credit-scoring algorithms to include this information, thereby reducing the universe of credit invisibles.

DEBT-TO-INCOME RATIOS

Mortgage lending criteria include debt-to-income (DTI) ratio requirements, which are limits on the proportion of a borrower's monthly income that is needed to cover payments to creditors. Due to federal regulations and longstanding mortgage industry rules-of-thumb, mortgage lending standards have historically required that household debt, including expected mortgage, auto loan, student loan, credit card, and other loan payments, fall below 43 percent of monthly income, although recent regulatory changes have relaxed these restrictions.

Because of lower-income profiles and debt obligations, Black and Hispanic homebuyers have higher DTI ratios on average than White homebuyers. For example, Black homebuyers pay an average of 41 % of monthly income to creditors compared to 37 percent for White homebuyers. While these differences may seem small, it is important to keep in mind that income levels matter-- having to pay $1,260 out of an income of approximately $3,000 a month is a very different set of financial circumstances in practice than paying $1,940 out of a monthly income of $5,250.[67]

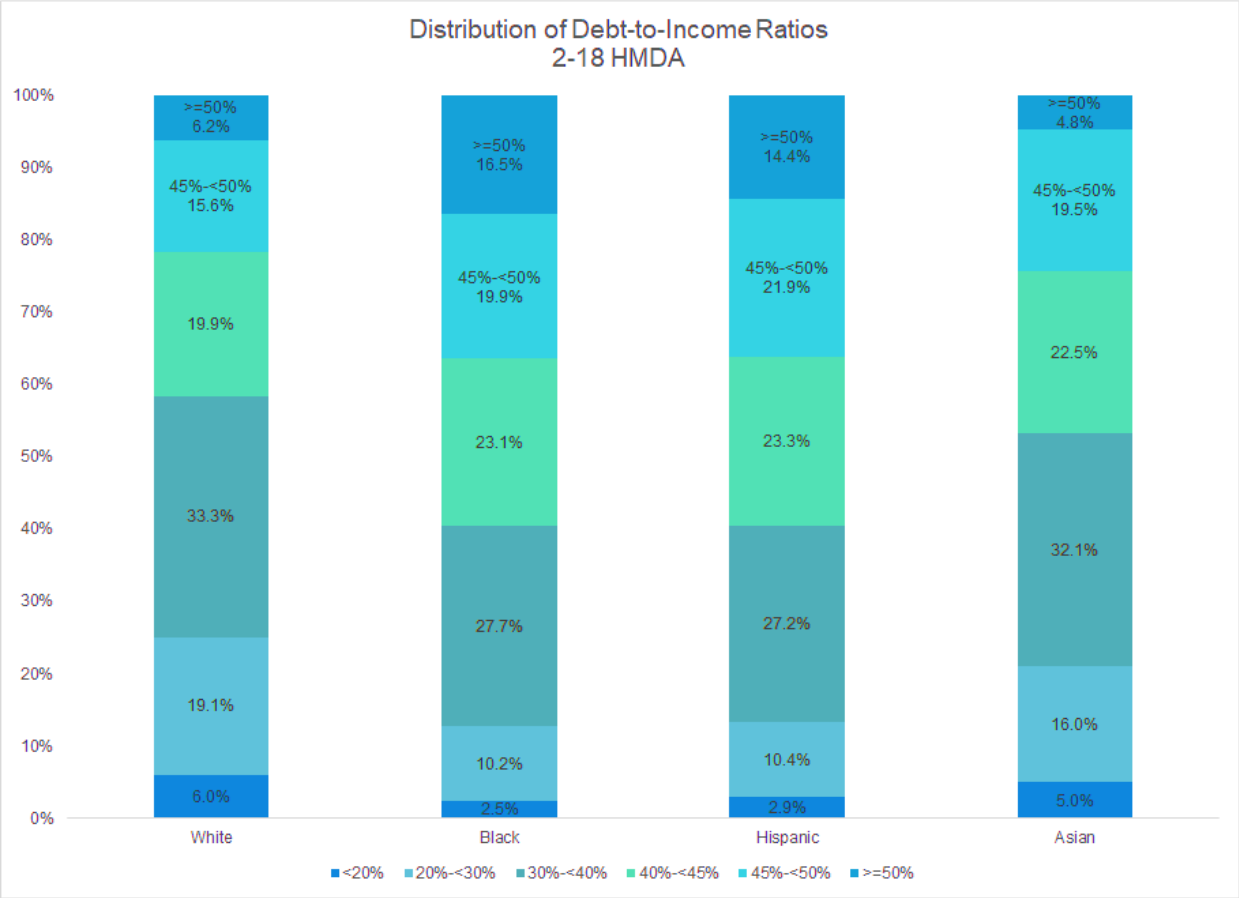
DTI Ratios Are Higher for Black Homebuyers

Median & Mean DTI – 2018 HMDA				
Median	37%	42%	42%	39%
Mean	36.7	41.1	40.8	37.6

Source: 2018 HMDA first-lien, owner-occupied, home-purchase, 1-4 family loans

[66] See https://www.fdic.gov/householdsurvey/. Accessed July 13, 2020.
[67] Based on 2018 HMDA DTI and 2018 Census income estimates.

Black Borrowers Are More Likely to Have Debt-to-Income Ratios Over 45 Percent



Source: HMDA first-lien, owner-occupied, home-purchase, 1-4 family loans

The DTI standard was codified in the Qualified Mortgage (QM) the "ability to repay" anti-predatory lending provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The QM rule, issued in 2014, was designed to protect consumers from risky loans and required that lenders document that a borrower have the ability to repay the loan, with a stipulation that their DTI ratio does not exceed 43 percent. Fannie Mae, Freddie Mac, and FHA were not bound to this requirement, under a provision known as the 'QM Patch'. Under the QM Patch, loans sold to Fannie Mae or Freddie Mac, and loans insured by FHA, are allowed to exceed the 43% DTI ratio, in principle, because of their standardized algorithms that rely on multiple additional factors to assess credit risk. Still, the business justification for DTI restrictions has been questioned by researchers and policymakers because the extent to which DTI, when used as part of a multivariate model, is predictive of default varies depending on macroeconomic conditions, borrower equity, and credit score.[68] When used as a single-factor overlay on top of a multivariate credit

[68] Agarwal, S. & Green, R., Rosenblatt, E. & Yao, V. (2014). Collateral pledge, sunk-cost fallacy and mortgage default. Journal of Financial Intermediation, 24(2), 636-52; Goodman, L.S. (2017), Quantifying the tightness of mortgage credit and assessing policy actions, 37 Boston College Journal of Law & Social Justice, 37(2), 235, https://lawdigitalcommons.bc.edu/jlsj/vol37/iss2/3. Downloaded October 14, 2018.; Goodstein, R. (2014). Refinancing trends among lower income and minority homeowners during the housing boom and bust. RealEstate

model, studies have shown DTI has little if any additional predictive value and profound discriminatory effect. In June of this year, the CFPB proposed amendments to these rules that would remove DTI as a factor in mortgage underwriting models and allow the QM patch to expire. These changes, if adopted, should enhance access to mortgage credit for Black homebuyers.

COVID-19 AND THE MORTGAGE MARKET

The onset of the COVID-19 pandemic crisis has caused lenders and investors to tighten mortgage lending requirements in anticipation of increased defaults. In an effort to reduce risk exposure, many have increased the minimum allowable credit score and down payments. These trends are likely to exacerbate the challenges that already work against expanding Black homeownership[69].

SUMMARY

In this section, we have provided a detailed overview of the state of the mortgage market for Black homebuyers. We presented a profile of the average Black homebuyer in the FHA and conventional markets, a comparison of financial characteristics of these borrowers, and a detailed analysis of the implications of mortgage underwriting criteria for Black borrowers. Based on the state of homeownership and the state of the mortgage market described in the previous sections, we discuss implications for public policy and recommended directions for the industry.

Economics, 42, 690-723.; Green, Richard K. (2016). The trouble with DTI as an underwriting variable--and as an overlay, Richard's Real Estate and Urban Economics Blog, September 17, downloaded October 14, 2018; Quercia, Roberto G. and Ding, Lei and Reid, Carolina Katz, Balancing Risk and Access: Underwriting Standards for Qualified Residential Mortgages (January 18, 2012).

69 https://www.corelogic.com/landing-pages/covid19.aspx#a_HousingAnalysis2

3 DIRECTIONS FOR PUBLIC POLICY AND THE REAL ESTATE INDUSTRY

Taylor and Riley bought their first home last year. Although Taylor and Riley possess many of the attributes of similarly-situated White middle-class families, they have considerable debt, little wealth, and negligible savings. As a result, once the loan forbearance, credit scoring adjustments, and other short-term pandemic benefits expire, they will have less of a financial cushion to fall back on. The value of their home will appreciate more slowly, while their property taxes will rise more quickly than in predominantly White areas. Due to the history of racism in the banking and real estate markets, the effects of inequality in employment, education, and health care, along with the present-day effects of the pandemic, Taylor and Riley like many others face challenges in the mortgage and housing market which existing public policies cannot resolve. Advancing Black homeownership requires public policy solutions that intentionally and explicitly address housing supply, affordability, access to credit, assistance due to the COVID-19 pandemic, fair housing regulation, and other manifestations of systemic inequality.

3.1 POLICY RECOMMENDATIONS

The analyses presented in this report shed light on the current state of Black homeownership as well as conditions in the mortgage and housing markets that affect Black households. In the second quarter of 2020, the homeownership rate was 47 percent for Black and 73 percent for White households. The recent uptick in Black homeownership due to a strong economy and low-interest rates has ended abruptly due to the COVID-19 pandemic and its far-reaching and devastating effects, particularly to the Black community. However, as in past economic crises, the adoption of substantial, immediate, multi-level, and coordinated policy interventions directed towards boosting homeownership could 'save the day' by driving economic growth and opportunity for Black households and families. Taxpayers subsidize housing for the wealthy via the tax code, zoning restrictions, and other mechanisms. These benefits should be extended to those who face historical disadvantages.

The following policy recommendations are intended to address the current and systemic issues presented in Sections I and II of this report.

1. **Aggressive loan forbearance and credit reporting mandates are necessary to protect Black homeowners and potential homebuyers from financial devastation due to the COVID-19 pandemic.**

   One recommended approach, described as 'suppression and deletion,' restricts lenders' reporting of late payments to credit bureaus during the pandemic. Due to discrepancies with consumer dispute resolution processes and other potential data inaccuracies, legislators and regulators will need to be more specific and vigilant about protecting consumers.[70]

2. **Federal-level rent relief and eviction bans are necessary to help Black homebuyers and potential homebuyers nationwide.**

   The CARES Act includes a moratorium on evictions for rental properties financed by Freddie Mac, Fannie MAE or FHA loans, or Low-Income Housing Tax Credits. These only accounts for approximately 28 percent of rental units[71].

3. **Restoring fair housing regulatory protections and increasing enforcement can reduce barriers to homeownership due to historical redlining and discrimination.**

   - Restore the Affirmatively Furthering Fair Housing (AFFH) rule, issued by HUD in 2015, which required HUD's program participants 'to take significant actions to overcome historic patterns of segregation, achieve truly balanced and integrated living patterns, promote fair housing choice, and foster inclusive communities that are free from discrimination' should be restored. As recently as July 2020, Secretary of HUD Ben Carson and President Trump have expressed intentions to eliminate this regulation altogether.
   - Restore and enforce HUD's 2013 regulation formalizing the Fair Housing Act's disparate impact standard. Given the increasing reliance on artificial intelligence, machine learning, and big data in the housing industry, this rule, and its enforcement are critical to correct for the effects of cumulative disadvantage and curtail forms of systemic discrimination in housing markets.
   - Issue an Executive Order to prioritize Black homeownership as a policy goal.

4. **Regulatory reforms can improve access to and costs of mortgage credit in the conventional market for Black homebuyers.**

   - Reform the secondary market system and strategically align the roles of Fannie Mae, Freddie Mac, FHA, and their regulators.
   - GSE reform, i.e., release from conservatorship and restructuring of the secondary mortgage market, should refocus the GSEs' original mission, which at least since the 2008 crisis has failed to serve the Black community in any meaningful way.
   - Appoint FHFA as a regulator.
   - Require Fannie Mae and Freddie Mac, as recommended by the FHFA Office of the Inspector General, to monitor their seller/servicers' compliance with fair lending and other consumer protection laws[72]

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70 "Credit Reporting and COVID-19 — It's Not a Sophie's Choice," by Michael Turner, Inside Sources, August 07, 2020, https://www.insidesources.com/credit-reporting-and-covid-19-its-not-a-sophies-choice/

71 "The CARES Act Eviction Moratorium Covers All Federally Financed Rentals—That's One in Four US Rental Units," by Laurie Goodman, Karan Kaul and Michael Neal, Urban Institute, https://www.urban.org/urban-wire/cares-act-eviction-moratorium-covers-all-federally-financed-rentals-thats-one-four-us-rental-units

72 https://www.fhfaoig.gov/Content/Files/AUD-2013-008.pdf

- Eliminate Loan Level Price Adjustments (LLPAs) and re-evaluate risk-based pricing. As discussed elsewhere in this report, LLPAs and accompanying capital standards result in Black homeowners having to pay more for their mortgages because of the misdeeds of lenders and the failure of policymakers to regulate bad lending practices which led to the 2008 crisis[73]. These additional costs should be priced uniformly across all mortgages. FHFA should remove capital buffers on low FICO or high LTV mortgages, or could use the LLPAs towards capital requirements. To the extent risk-based pricing continues, FHFA and lenders should explore incorporating prepayment rates in pricing models.
- Revise the Community Reinvestment Act to modernize banks' requirements to serve Black communities in ways that do not exacerbate gentrification and segregation.
- The CFPB and other regulatory agencies, including FHFA and HUD, should encourage banks to make better use of Regulation B of the Equal Credit Opportunity Act, Section 1002.8 which allows a creditor to extend special-purpose credit to applicants who meet certain eligibility requirements, such as for the benefit of an economically disadvantaged class of persons or special social needs.
- Expand enforcement of Dodd-Frank Section 349 on Diversity and Inclusion for the workforce, minority business utilization, and Board diversity in the financial industry.

5. **FHA and HUD could increase Black homeownership opportunities with additional resources.**

- Provide additional support for technological innovation for FHA and VA
- Reduce the MI requirements for FHA borrowers
- Expand and reform the FHA Title I rehab loan program, and to include rehabilitation loan purchases in the GSE 'Duty to Serve' regulations. Not only does this support environmental sustainability priorities, but rehab loans can be used to improve the resiliency of existing housing stock, which lowers the costs and risks of exposure to natural disasters for homeowners.
- Reform the HUD 203k program. One of the significant barriers to maintaining a homeowner's property value is having access to capital to purchase or keep up the home. This could create new homeowners, jobs, and opportunities for minority-owned construction businesses.
- Establish an African-American Homeownership program for affordable residential mortgages, modeled after the Section 184 program for Native Americans.

6. **Down payment assistance can offset wealth constraints for Black homebuyers.**

Evidence suggests that wealth constraints, i.e. downpayments, are the most significant impediment to homeownership for income-constrained households and minority households in particular.[74] Several studies have found that down-payment assistance provided by non-profit or

[73] See Aronowitz, Choi and Golding, "Mortgage Rates and the Extra Cost for Black Homeowners."

[74] "Barriers to Accessing Homeownership Down Payment, Credit, and Affordability," Laurie Goodman, Alanna McCargo, Edward Golding, Bing Bai, Bhargavi Ganesh, Sarah Strochak, Urban Institute, November 16, 2017, https://www.urban.org/research/publication/barriers-accessing-homeownership; Di, Zhu Xiao and XiaodongLiu (2007). "The Importance of Wealth and Income in the Transition to Homeownership," Cityscape, 9(2), 137-151.; Herbert, Christopher E. and Winnie Tsen (2007), "The Potential of Downpayment Assistance for Increasing Homeownership among Minority and Low-Income Households," Cityscape, 9 (2), 153 - 183.

government grants significantly increased access to homeownership for lower-income and Black borrowers.[75]

- Pass the American Dream Down Payment Savings Plan Act. This bill would create tax-advantaged plans designed for down payment savings, like a 529 college savings plan. These plans also allow for family members (immediate and extended) to contribute to a beneficiary's account.
- Increase FHA lending and other down payment assistance programs in areas with low Black homeownership rates.

7. Student loan relief can alleviate debt burdens due to wealth constraints of Black homebuyers.

Student loan payments are included in debt-to-income calculations used for mortgage underwriting.

- The DTI formula should include only the reported payment amount rather than 1% of the outstanding balance. Policy interventions such as the Employer Participation in Repayment Act proposed in 2020 could make it easier for employers to provide tax-free assistance to help graduates offset their student loan debt.[76]
- The CARES Act suspended all federal student loan payments and debt collections until September 30, 2020, without penalty to borrowers' credit history; also, these loans are charged 0 % interest during this period. This practice should be extended.

8. Accounting for race in credit scoring and underwriting models can reduce negative disparate impact.

Credit models currently in place in the mortgage market should account for advances in financial technology or alternatives to traditional banking. Elsewhere, new models that go beyond credit repository data are being developed that allow rental payments, utilities, remittances, and digital transactions to be used to establish credit histories. These innovations would benefit unbanked consumers, who are disproportionately Black. It is also important to address formally the hidden biases in the algorithms used to develop these tools and to assess the disparate impact on protected classes of borrowers.[77]

9. Increasing the supply of affordable housing can increase opportunities for Black homeownership.

Experts suggest that approximately 5 million new or rehabilitated affordable housing units will be needed over the next decade. While Federal Government programming can support and incentivize this development, given the diversity of these housing needs (e.g. New York City vs. Houston) there is no single existing program that can solve these issues. Thus, part of the policy

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75 Freeman, Allison and Jeffrey J. Harden (2015), "Affordable Homeownership: The Incidence and Effect of Down Payment Assistance," *Housing Policy Debate*, 25(2), 308–319.

76 https://www.washingtonpost.com/opinions/2019/06/13/african-americans-are-held-back-most-by-student-loan-debt-heres-solution/

77 Perry, Vanessa G. (2018), "One More Score? Consumer Confusion, Credit Scoring, and Homeownership Opportunities," White Paper, FICO; Williams, Betsy Anne, Catherine F. Brooks, and Yotam Shmargad. "How algorithms discriminate based on data they lack: Challenges, solutions, and policy implications." Journal of Information Policy 8 (2018): 78-115; Solon Barocas, Moritz Hardt, Arvind Narayanan, Fairness and machine learning: Limitations and Opportunities, https://fairmlbook.org/

strategy needs to be coordination between federal, state, and local governments as well as localized public-private partnerships.

- Expand the Housing Trust Fund and the Capital Magnet Fund, which provide grants to states to produce and preserve affordable housing for extremely low- and very low-income households. This expansion could be financed by increasing the contributions made by Fannie Mae and Freddie Mac.
- Expand the Low-Income Housing Tax Credit (LIHTC) program with extended affordability requirements, including fair housing and anti-segregation protections.[78]
- Require that Opportunity Zone funds be directed to long-term residents versus investors to increase homeownership opportunities while offsetting the negative effects of gentrification in traditionally Black neighborhoods.
- Establish a Renaissance Neighborhood Program to transform and bolster Black and minority homeownership in historically redlined neighborhoods, similar to the Homeownership Zone program. These funds would be used for rehabilitation of existing homes, new affordable single-family homes, and community improvements, e.g. infrastructure, cultural and recreational facilities.
- Establish a Minority Homeownership Marketing, Outreach, and Assistance program to support community-based stakeholders with a commitment to increasing Black homeownership.

10. **State and local governments should examine the effects of inclusionary zoning programs on Black communities.**

    Inclusionary zoning programs, typically introduced by local or city governments, include requirements or incentives for developers to build affordable housing units. Although these practices have been prohibited in several states, and many argue that single-family zoning restrictions result in increased housing prices and the preservation of segregation, many policymakers and consumer groups support these programs.

11. **State and local governments should update their fair housing and fair lending laws to add needed protections not found in federal law and should leverage their sovereign power to hold accountable lenders/insurers/brokers doing business in their states.**

    State and local governments should step up enforcement of these laws, by requiring more training, conducting more investigations, and sanctioning violations.

12. **States also need to Banks and other lending institutions should expand self-regulation.**

    The industry should create stronger structures for self-regulation to prevent discriminatory practices, such as arbitrary underwriting guidelines. For example, during the COVID-19 pandemic, some lenders are reportedly requiring a minimum of 700 FICO score and a 20 percent downpayments—others have opted out of making jumbo loans[79].

13. **Real estate professionals should leverage their influence to demand that industry participants comply with Fair Housing or other laws that affect Black communities.**

[78] https://prrac.org/pdf/vision-for-federal-housing-policy-2021-beyond.pdf
[79] "Borrowing Is Cheap. The Catch? Qualifying." By Tara Siegel Bernard, August 5, New York Times

14. Increasing diversity in the real estate and mortgage industry, especially in senior leadership, and encouraging minority business utilization will improve performance.

In addition to increasing representation of Black professionals to reflect the characteristics of the markets served by the industry, there is evidence that diversity in leadership has a positive impact on organizational performance.[80]

In summary, there are several key directions for policymakers that need urgent attention to enhance homeownership opportunities for Black Americans and to prevent devastating consequences of the COVID-19 pandemic. In the immediate future, we need enhanced relief for Black homeowners and renters who are disproportionately affected by the pandemic. Going forward, thoughtful implementation of the additional policy interventions described above, including the restoration of Fair Housing laws and enforcement, housing finance reform, changes in credit scoring, underwriting, and pricing models, increasing supply, and improving industry diversity, will go a long way towards increasing Black homeownership.

In the sections that follow, housing industry experts highlight key policy issues related to Black homeownership, including the COVID-19 pandemic, recent developments in fair housing legislation and regulation, and HUD's proposed changes to the disparate impact standard for discrimination.

[80] Roberson, Q. M., & Park, H. J. 2007. Examining the link between diversity and firm performance: The effects of diversity reputation and leader racial diversity. Group and Organization Management, 32: 548-568; Roberson, Q., Holmes, O., & Perry, J L. (2017). Transforming research on diversity and firm performance: A dynamic capabilities perspective. Academy of Management Annals (2017), 11(1), 189-216.

3.2 THE COVID-19 FORBEARANCE MORATORIUM ENLARGES THE WOUND CAUSED BY THE LACK OF HOMEOWNERSHIP IN BLACK AMERICA

Maurice Jourdain-Earl

Congress passed The Coronavirus Aid, Relief, and Economic Security Act (H.R.748), also known as the CARES Act, on March 26, 2020. The two trillion-dollar stimulus package is designed to help America fight the devastating spread of the COVID-19 disease and prevent the US economy from collapsing. The CARES legislation is the largest emergency aid package in US history. It is a massive financial injection into our struggling economy with provisions aimed at helping American workers, homeowners, small businesses, and industries grappling with the economic disruption from the coronavirus pandemic.

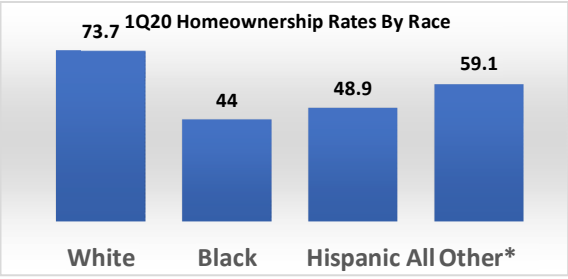
Unfortunately, there is no provision in Sec. 4022 to help renters. Sec. 4023 however, gives multifamily property owners the right to request forbearance and renters receive eviction protection should the landlord choose to participate in the program.

Section 4022 of the CARES Act gives American homeowners the right to request a forbearance to stay in their homes and avoid foreclosure. This section gives a borrower with a federally backed mortgage loan (FBML) experiencing financial hardship, due directly or indirectly to the COVID–19 emergency, the right to request forbearance on FBMLs from the loan's servicer, regardless of delinquency status.

Forbearance is a temporary postponement of mortgage payments. It is a form of repayment relief granted in lieu of forcing a property into foreclosure. Forbearance does not erase what is owed. The borrower has to repay any missed or reduced payments of principal and interest in the future. The missed payments can be paid at the end of the forbearance period, tacked on at the end of the mortgage term, or the loan can be refinanced or modified.

Section 4022 of the CARES Act will have a disparate impact on black Americans because it is designed to help homeowners. White Americans, with a 73.7% homeownership rate, own more homes relative to their proportion of the population, compared to a 44% black homeownership rate.

1st Quarter 2020 the U.S. Census Bureau Homeownership Rates by Race



Whether homeowners are facing job loss, reduced income, illness, or business closures or other issues that impact their ability to make monthly mortgage payments, the government is working to ensure they are protected. Loan servicers have been directed to provide mortgage relief options that include:

- Ensuring payment relief by providing forbearance for up to 12 months
- Waiving assessments of penalties or late fees
- Halting all foreclosure actions and evictions of borrowers living in homes owned by the Enterprises until at least August 31, 2020
- There is no threat of foreclosure and no adverse information reported to a credit agency. The only criteria to qualify is the mortgage loan has to be federally backed

"With no fees, penalties, or interest, the servicer by law is expected to provide the forbearance for up to 180 days, which may be extended for an additional period of up to 180 days at the request of the borrower."[81]

Federally backed mortgage loans include any first or subordinate lien on residential real property (including condominiums and cooperatives) designed for 1-4 families that is insured by the Federal Housing Administration (FHA), guaranteed or insured by the Department of Veterans Affairs (VA), guaranteed or insured by the Department of Agriculture (FSA/RHS), and loans purchased or securitized by Fannie Mae and Freddie Mac (the Enterprises).

3.2.1 Renter Eviction Protections Only During A Multifamily Forbearance Period

With a 44% homeownership rate, the vast majority of black Americans are renters. Sec.4023 covers forbearance on multifamily properties with federally backed loans. Owners of multifamily properties may submit an oral or written request for forbearance to the borrower's servicer affirming that the multifamily borrower is experiencing financial hardship during the COVID–19 emergency.

Upon receipt of an oral or written request for forbearance from a multifamily borrower, a servicer shall document the financial hardship; provide the forbearance for up to 30 days; and extend the forbearance for up to 2 additional 30-day periods upon the request of the borrower.

"During the multifamily owner's forbearance period renter's receive eviction protection. A multifamily borrower that receives a forbearance under this section may not, for the duration of the forbearance period—evict or initiate the eviction of a tenant from a dwelling unit located in or on the applicable property solely for nonpayment of rent or other fees or charges; or charge any late fees, penalties, or other charges to a tenant for late payment of rent. If a landlord does not participate in the forbearance program, renters are subject to local eviction processes."[82]

Section 4023 benefits landlords, renter's eviction protection is an afterthought. Eviction protection for renters in no way compares to the financial safety net of upwards to 12 months of delayed mortgage payments available for homeowners. Renters are expected to pay rent.

3.2.2 Execution of the CARES Act

Anecdotally, very few people in my circle of family, friends, and industry associates are aware of Sec. 4022, and if they are aware, they do not fully understand how it works. I know of multiple families with FBMLs who are suffering from COVID-19 financial hardships

[81] Sec. 4022 of the CARES Act, pg. 569

[82] Section 4023 of the CARES Act, pg.570

and qualify for the forbearance program. I told each family about the program and asked that they share the information with their network. It became clear that homeowners in the black community are not aware of Sec. 4022 of the CARES Act. It also became abundantly clear how important it is for the program to be properly executed.

The following are a few examples:

A realtor in Gaithersburg, MD experienced a significant reduction in her real estate business. She called her servicer, one of the 10th largest banks in the country, requested a Covid-19 forbearance on the conventional loan on her townhouse and was initially flat-out denied. It took multiple calls, long wait times, and an escalation to higher authorities for her to get a 180-day forbearance on both her first and second mortgage.

A nurse and single mother of three is experiencing financial hardships. She provides IV infusions to patients in their homes. Having three children at home accumulates extra expenses and requires extra care because of the coronavirus. She has an FHA loan, called her servicer, a top 40 independent mortgage company, and requested mortgage relief. The servicer knew nothing of the COVID-19 forbearance program, offered her a 3-month forbearance, saying the delayed payment would be due at the end of the forbearance period. This case is still unresolved.

A small family-owned restaurant with a staff of 12 applied for a Paycheck Protection Program (PPP) loan from a large bank that held their personal and business accounts. The PPP loan was denied without any explanation. The restaurant laid off its employees and had to close. Now with no family income, there was fear of losing their home to foreclosure. I informed the small business owner about the Sec. 4022 forbearance moratorium. They requested one from their mortgage servicer. Again, only through persistence, multiple calls, escalation to senior managers, and the threat of a complaint to the Consumer Financial Protection Bureau (CFPB) was the family finally able to get the needed mortgage relief.

All of the above families are black. The treatment each family experienced may or may not have been based on a prohibited basis. But their experience reflects the need for fair servicing monitoring for both PPP loans and Sec. 4022 forbearance transactions.

CFPB Director Kathy Kraninger recently spoke before the Consumer Data Industry Association, sounding a note of caution to the industry as the bureau found consumer complaints at all-time highs in April and May. She noted the work that servicers, furnishers, and consumer reporting agencies need to do to help troubled consumers during the pandemic

Data by race, geography, and borrower qualification is needed to perform this type of fair lending analysis. This data on home mortgages is readily available from servicers because those records were reported to the government via the Home Mortgage Disclose Act (HMDA).

PPP loan data, however, has not been made public. If/when the data become public, it will need to be race-estimated to get proxies for race and gender. First and last names will be needed but can be anonymized for privacy purposes. The same is true of property addresses, which are needed to geocode the data to determine the demographic makeup of neighborhoods where the PPP loans were granted.

According to the McDash Flash Forbearance Tracker, "As of June 2, 2020, 4.73 million homeowners have already taken advantage of the government's forbearance program – or 8.9% of all mortgages – are in COVID-19 mortgage forbearance plans"[83]. Unfortunately, knowledge of the forbearance moratorium is not widespread, by homeowners or servicers. It is curious how, since its enactment on March 26, 2020, 4+ million homeowners have become aware of the CARES Act forbearance moratorium. No one in my network was aware of Sec. 4022.

Fortunately, in the CARES Act, Congress removed qualification barriers that existed in great recession loss mitigation programs. Sec. 4022 of the bill makes it easy for all FBMLs to be eligible. To get a COVID–19 forbearance, a homeowner can simply make a request from their mortgage servicer. No additional documentation is required, other than the assertion of a financial hardship caused by the COVID–19 pandemic. However, all American homeowners with an FBML experiencing financial hardship need to know about this provision of the two trillion-dollar CARES Act.

3.2.3 COVID-19 Hits Black Community the Hardest

The numbers below illustrate the need to make all Americans with FBMLs aware of Sec. 4022. More specifically, the numbers show why a concerted effort is needed to reach black American homeowners. Unless Sec. 4022 is executed appropriately, there is the potential to enlarge the wounds of racial disparities in homeownership, specifically the wounds affecting black homeownership preservation.

It is well documented that the black community has been hit the hardest, in all kinds of ways, by the effects of the coronavirus. Whether facing job loss, reduced income, illness, or business closures, the pandemic has been devastating to the black community. In addition, many black Americans are front-line essential workers. They do not have the benefit of being able to work from home, nor able to self-quarantine because they live in apartments, putting their loved ones at risk every day.

Black small businesses are also drastically impacted, both by the health crisis and the risk of losing their livelihood. Moreover, many of the small business owners are likely to be homeowners and could face a triple whammy of illness, business closure, and possibly foreclosing on their home.

Based on these current and historical financial, income, wealth, and health disparities, it can be deduced that blacks are more likely to experience COVID-19 financial hardships than other communities. This intensifies the need to get the word out to black homeowners with federally backed mortgages that may qualify and need mortgage payment relief.

3.2.4 Racial Disparities with FBMLs Favor White Americans

Using ComplianceTech's HMDA data mining software LendingPatterns™, 13-years of mortgage data were stratified with the requisite filters to show the number of loans purchased or securitized by the Enterprises by race and the number of government loans (FHA-VA-FSA/RHS) originated by lenders by race[84].

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83 https://www.blackknightinc.com/black-knight-number-of-homeowners-in-covid-19-related-forbearance-plans-falls-for-first-time-since-crisis-began-8-9-of-all-mortgages-now-in-forbearance/

84 LendingPatterns™ filters include first or subordinate lien on residential real property (including condominiums and cooperatives) designed for 1-4 families excluding unknown or NA race.

White Americans have more FBMLs that could potentially qualify for the forbearance moratorium. The loans presented do not imply these borrowers are experiencing financial hardships and qualify for the forbearance moratorium. Nor does the data attempt to suggest this pool of loans is the universe of FMBLs. In fact, it is highly probable there are many FBMLs outstanding, not included in this 13-year dataset. In addition, many, if not most loans made to all racial groups are not FBMLs and do not qualify for the forbearance moratorium. For instance, loans not sold remain in lenders portfolios, and loans sold to non-agency investors, fall into these categories.

Thus, the numbers presented have inherent limitations. They, however, offer a very good representative sample to illustrate how white Americans are better positioned to benefit from the forbearance moratorium and the significance of getting the word out to the small number of black homeowners who could qualify and benefit from the mortgage relief program.

The table below shows the number of FBMLs by race between 2007-2019. Overall, of the 46.5 million FBMLs, white Americans accounted for 35.8 million or 77%; black 3.3 million or 7%; Latinx 4.7 million or 10%; and Asians 2.4 million or 5.2%. Native American and Hawaiian shares were both less than .003%.

FBMLs by Race (2007-2019)

	White	Black	Latinx	Asian	Native Amer.	Hawaiian	Total
Fannie-Freddie	21,599,014	969,570	2,047,537	1,953,090	62,370	76,137	26,707,718
FHA-VA-FSA/RHS	14,195,285	2,285,056	2,644,670	458,637	96,194	82,356	19,762,198
FBML	35,794,299	3,254,626	4,692,207	2,411,727	158,564	158,493	46,469,916

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FBML	35,794,299	3,254,626	4,692,207	2,411,727	158,564	158,493	46,469,916

When the subgroups of FBMLs, i.e., Fannie Mae and Freddie Mac versus FHA-VA and FSA/RHS are viewed separately however, the data reveals a disturbing story. For example, of the 26.7 million FBMLs purchased or securitized by the Enterprises, 21.6 million or 80.87% were white. On the other hand, of the 3.3 million black FBMLs the Enterprises purchased or securitized only 969,570 or 3.63%.

By contrast, of the 19.8 million FHA-VA-FSA/RHS loans, 14.2 million or 71.8 were white. Of the 3.3 million black FBMLs 2.3 million or 11.56% were FHA-VA-FSA/RHS. In other words, black FBMLs are 3.5 times more likely to be FHA-VA-FSA/RHS versus loans purchased or securitized by Fannie Mac and Freddie Mac. The following table shows the 13-year average percent of FBMLs for each subgroup by race.

13-year Average percent of FBMLs

Race	Fannie-Freddie	FHA-VA-FSA/RHS
White	80.87	71.83
Black	3.63	11.56
Latinx	7.76	13.38
Asian	7.31	2.32

Race	Fannie-Freddie	FHA-VA-FSA/RHS
Nat Amer	0.24	0.5
Hawaiian	0.29	0.4

The Enterprises do not originate loans, lenders do. The Enterprises and their regulator the Federal Housing Finance Agency (FHFA) have a tremendous influence on loan origination activities in America with their underwriting, pricing, and purchase guidelines. It could be their guidelines are too restrictive and black Americans, for many reasons, do not meet the Enterprises guidelines. Either way, the Enterprises have no control of lenders. Lenders could be the perpetrators because of some of the following reasons if they:

- Do not obtain black loan applications
- Discriminate in their lending practices and do not have an adequate compliance management system to detect disparities
- Do not originate black loans of the type the Enterprises buy, i.e., FHA, VA or FSA/RHS or subprime
- Choose not to sell black loans and keep them in portfolio or
- Sell them to non-agency investors

This pattern of lending in America is direct evidence of a government-sponsored dual mortgage market: one white and one black, separate, and unequal. Fannie Mae and Freddie Mac predominantly serve the mortgage finance needs of white and Asian Americans. While the largest share of FHA, VA, and FSA/RHS loans are also white, without the government loan programs, black and Latinx homeownership rates would be even lower. The CARES Act and Sec. 4022 can be an important provision to help black homeowners with home preservation. During the great recession, a disproportionate number of black homeowners lost their homes to short sales or foreclosures.

3.2.5 Targeted Execution of the COVID-19 Forbearance Moratorium is Critical

Although the number of black FBMLs is small, an intentional and targeted effort is needed to help black homeowners become aware of Section 4022 of the CARES Act. We must circulate government-created guidance designed for the industry to understand servicers' responsibilities under the law. We must circulate government guidance to consumers, with special emphasis on how to reach black Americans. We must use all available media outlets to get the word out.

Using word of mouth from the lending industry will not work because of the lack of diversity in the industry. Industry newsletters and webinars will not work because the readership and viewer are not directed to black Americans. Nor will public announcements by industry leaders work.

We must engage black churches and religious organizations, community organizations, black civil rights organizations, black fraternal organizations, and black real estate organizations, etc. We must connect with black celebrities to film public service announcements, run ads on social media such as Instagram and Facebook. White lenders, realtors, and mortgage trade organizations, etc. also have a role to play. Using their vast resources, their involvement in promoting the availability of Sec. 4022 to black homeowners could be advantageous.

The promotion of the forbearance program to existing black homeowners will send a strong message to black non-homeowners. It can be used to send a strong message that homeownership despite its challenges, is better than renting.

All Americans, especially black Americans, should be aware of information the government has made available to explain Section 4022 of the CARES Act. For example, on June 5, 2020, the CFPB and Conference of State Bank Supervisors (CSBS) issued a joint press release to provide further clarity on the CARES Act forbearance and foreclosure to mortgage servicers. Consumers should read this release. It will let them know what the rules and expectations are for servicers.

https://files.consumerfinance.gov/f/documents/cfpb_csbs_industry-forbearance-guide_2020-06.pdf.

It provides an:

- Overview of CARES Act Forbearance Provisions
- Statutory Overview
- Relevant Rules and Guidelines and
- Questions and Answers

Finally, a joint website has been developed by the CFPB and the Department of Housing and Urban Development (HUD) to inform consumers about mortgage and housing assistance during the coronavirus national emergency. However, the website has not been widely promoted as a resource for homeowners experiencing COVID-19 related financial hardships.

https://www.consumerfinance.gov/coronavirus/mortgage-and-housing-assistance/

It is important to know that in every major economic crisis, the American government has always bailed out and developed programs to advance homeownership. The great depression, the G.I. bill, the bailout of the great recession, and now the bailout during the great lockout; these programs have always helped white Americans stay in their homes. In other words, white Americans, sometimes need help too.

In closing, the black American population is being hit with a perfect storm. First, due to the overall low homeownership rate, the majority of black Americans are renters. Renters experiencing financial hardships only receive eviction protection from the CARES Act, and only then, if the landlord participates in the forbearance program. Second, comparatively, there are a small number of black FBMLs, but it is important to help those experiencing COVID-19 financial hardships keep their homes, especially since the majority of black loans do not qualify as FLBMs. Third, on top of all this, because of the lack of awareness due to poor outreach efforts, black Americans are not able to take advantage of the availability of this important mortgage relief program. The community and the industry must do a better job.

About the author:
Maurice Jourdain-Earl is the co-founder and Managing Director of ComplianceTech. The company's mission is to help transform the world into a place where credit providers and government agencies use technology to help people develop policies, practices, and

procedures to monitor and ensure that all creditworthy borrowers have fair access to credit.

ComplianceTech is a web-based software development and consulting company that uses technology to help its clients detect discrimination in lending and servicing and has developed tools to help customers prepare and submit HMDA and CRA data to their regulators.

Maurice is a noted speaker and writer on HMDA and fair lending practices. He is a native of Chicago and a graduate of DePaul University.

3.3 HUD REVISIONS TO 2013 DISPARATE IMPACT RULE

Michelle Aronowitz

HUD has finalized revisions to its 2013 Fair Housing Act disparate impact rule. It was posted on HUD's website on September 4, 2020, and will become effective 30 days after publication in the Federal Register. HUD argues that its revisions were needed to conform the rule to *Texas Department of Housing and Community Affairs v. Inclusive Communities Project*, the 2015 U.S. Supreme Court decision affirming that the Fair Housing Act reaches unintentional housing discrimination. With its current revisions, however, HUD's disparate impact rule may no longer provide a meaningful avenue to redress such discrimination.

The "disparate impact" or "discriminatory effects" standard, also known as the "effects test," refers to the method of proving discrimination absent evidence of intent. HUD's 2013 disparate impact rule formalized this standard in the housing context, drawing on 40 years of judicial case law, HUD administrative decisions, and the substantially similar disparate impact standard under the Equal Credit Opportunity Act (ECOA).

The traditional disparate impact standard does not call for the elimination of all housing practices that result in racial disparities. Rather, it recognizes that the Fair Housing Act abides only those disparities that are justified, that is, that serve a business necessity. Or, as the Supreme Court recently put it, disparities that are "necessary to achieve a valid interest." A less discriminatory alternative that could achieve the same business interest undercuts a claim that the more discriminatory practice was indeed necessary.

HUD's 2020 rule weakens the business necessity defense such that it no longer serves its original gatekeeping function. Under the 2020 rule, a defendant is no longer required to prove the business necessity of any of its policies that cause a disparate impact; instead, the plaintiff must prove the negative, that the defendant's practice does not advance a valid interest. The plaintiff must plead and prove that the challenged practice is "arbitrary, irrational, and unnecessary to achieve a valid interest or legitimate objective," which can include profit.

In addition, defendants are granted two defenses they may interpose to challenge a plaintiff's claim: the third-party defense and the use of a predictive model. The third-party defense allows the defendant to prevail by showing that its policy is "reasonably necessary" to comply with a third-party requirement, such as federal, state, or local law, controlling government guidance or opinion, or an arbitration order. The challenged practice need not be "necessary" to comply with the third-party requirement. The defense is available even where the defendant retains the discretion to comply with the third-party requirement in some other, less discriminatory manner. HUD's addition of government "guidance" to the list of barriers encourages lobbying to secure agency action to shield HUD recipients from disparate impact liability. HUD takes this step despite its long history of funding housing segregation and discrimination, leading to enactment of the Fair Housing Act and the impositions of an affirmative obligation on HUD to further fair housing.

HUD's predictive model defense is a sleight of hand. In the rule preamble, HUD explains how the defense would apply to a discriminatory loan denial claim. The defense does not analyze the class of applicants alleged to be harmed by the bank's underwriting practice—those denied loans. It does not examine whether the bank unfairly denied loans to those applicants, but rather, how others who received loans fared. The lender can assert the defense if a greater proportion of black borrowers accepted by the model defaulted as compared to white borrowers. In HUD's view, this outcome

would signal that the bank's risk assessment model was overly generous or at least not overly restrictive to black applicants, whether accepted or denied. That a disproportionate number of loans to black borrowers failed would justify the model and prove its accuracy in not approving loans to still more black applicants. Under this 1950's-era theory of discrimination, the existence of a default differential can be used to absolve a defendant, but the reasons for the differential are ignored. It could be that the lender's own pricing policies, like those described in this report, unfairly and disproportionately charged higher rates to black borrowers, predisposing them to higher default rates. Or, disproportionately higher insurance costs or property tax burdens, also described in this report, could have been the culprit. Ironically, HUD creates an expansive defense for lenders and insurers that thrives on the existence of widespread, unaccounted for discrimination, while crafting a restrictive causation requirement that unduly narrows the scope of redressable discrimination claims, bolstering the continuing success of the defense. This is hardly a rule designed "to eradicate discriminatory practices within a sector of our Nation's economy," which, as the Supreme Court recently reiterated in *Texas Department of Housing and Community Affairs*, is the central purpose of the Fair Housing Act.

The Mortgage Bankers Association, as well as Citi, JPMorgan Chase, Bank of America, Wells Fargo, Quicken Loans, and the National Association of Realtors have all called on HUD to pull back from publishing this rule. Concerns include the economic crisis caused by the worldwide pandemic, the rising awareness of systemic discrimination, and worries that the rule erodes protections necessary for combatting housing discrimination. These industry leaders asked HUD to refrain from issuing a rule that would alter the current application of the Fair Housing Act disparate impact standard, which this rule most certainly does. In the end, this rule will not withstand the scrutiny of time and will be replaced, whether by the courts or a future HUD administration. It may be as much this awareness that is driving business opposition to a "get out of jail free card." Back to the 1950s is not an acceptable outcome.

3.4 LINGERING EFFECTS OF DISCRIMINATION BY BANKS IN THE MAINTENANCE OF FORECLOSED HOMES ON COMMUNITIES OF COLOR

Lisa Rice

NFHA and 19 of its partner organizations[85] have now investigated more than 6,700 Real Estate Owned[86] (REO) properties in 37 metropolitan areas throughout the nation. The investigations revealed that banks and investors owning these homes seem to have engaged in troubling discriminatory patterns regarding the maintenance and marketing of these units. REO homes in majority White neighborhoods were cared for in a far superior manner than those in majority African American and/or Latino neighborhoods. The evaluations took into account 37 different aspects of the maintenance and marketing of each property, including curb appeal, structure, signage, indications of water damage, and condition of paint, siding, and gutters/downspouts. The investigations were conducted in neighborhoods where homeownership rates were high prior to the advent of the foreclosure crisis in 2007.

While REO properties in predominantly White neighborhoods were more likely to have neatly manicured lawns, securely locked doors, and attractive, professional "For Sale" signs out front, REOs in Communities of Color were more likely to have overgrown yards, trash, unsecured doors, and broken or boarded windows. REO properties in Communities of Color were not maintained to the standards of nearby homes and generally appeared abandoned, blighted, and unappealing to potential homebuyers, even though they were located in stable neighborhoods in which neighboring homes were well maintained. On the other hand, REOs in White communities were maintained to the standards of other houses in the neighborhood and would have been attractive to real estate agents and potential homebuyers.

Examples of investigative findings include:

- In Newark, NJ, REOs in Communities of color were 6.9 times more likely to have significant amounts of trash and debris littered throughout the property than REOs in White communities.
- In Albuquerque, NM, REOs in Communities of Color were 6.4 times more likely to have overgrown or dead shrubbery on the property than REOs in White communities.

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[85] NFHA's partners include the Miami Valley Fair Housing Center in Dayton, Ohio; Housing Opportunities Project for Excellence (HOPE) working in Miami-Dade and Broward Counties, Florida; Metro Fair Housing Services in Atlanta, Georgia; North Texas Fair Housing Center in Dallas, Texas, serving the greater Dallas/Fort Worth area; HOPE Fair Housing Center in West Chicago, Illinois; Open Communities in Winnetka, Illinois; South Suburban Housing Center in Homewood, Illinois; Greater New Orleans Fair Housing Action Center in New Orleans, Louisiana; Denver Metro Fair Housing Center in Denver, Colorado; Fair Housing Center of West Michigan in Grand Rapids, Michigan; Housing Opportunities Made Equal (HOME) of Virginia in Richmond, Virginia; Connecticut Fair Housing Center in Hartford, Connecticut; Fair Housing Center of Central Indiana in Indianapolis, Indiana; Metropolitan Milwaukee Fair Housing Council in Milwaukee, Wisconsin; The Fair Housing Continuum in Melbourne, Florida; Toledo Fair Housing Center in Toledo, Ohio; the Fair Housing Center of Marin in San Rafael, California; the Housing Research and Advocacy Center in Cleveland, OH; and the Fair Housing Center of the Greater Palm Beaches.

[86] Real Estate Owned properties are homes that have gone through the foreclosure process and have been purchased by the bank or investor.

- In Minneapolis, MN, REOs in Communities of Color were 4.0 times more likely to have damaged, broken, or boarded windows than REOs in White communities.
- In Cleveland, OH, REOs in Communities of Color were 3.8 times more likely to have unsecured holes in the structure of the home than REOs in White communities.

NFHA's research and analysis of the disposition of REO units reveal lingering negative effects of poor maintenance of properties in Communities of Color. Homes that were poorly maintained (those with 10 or more maintenance and marketing deficiencies out of the 37 examined) were more likely to sell to investors, and homes that were well maintained (those with less than 10 maintenance and marketing deficiencies) were more likely to sell to owner-occupants. The findings of one analysis of REOs investigated by NFHA in Maryland show that:

- 63.6% of REO properties that were poorly maintained were sold to investors, while only 52.1% of those that were well-maintained had the same sale outcome.
- 43.8% of well-maintained REOs sold to owner-occupants, while only 18.2% of the properties that were poorly maintained were sold to owner-occupants.
- "Other" disposition outcomes include properties sold to non-profits or local governments.

When analyzing the data for the race of the neighborhood, the outcomes are even more problematic:

- 57.4% of the REOs in Communities of Color sold to investors, while only 20.0% of the REOs in predominantly White communities sold to investors.
- Only 35.2% of the REOs in Communities of Color went to owner-occupants, while 80.0% of REOs in predominantly White communities were purchased directly by owner-occupants.

NFHA and its partner organizations have filed lawsuits against several financial services entities based on the findings of the investigation. Three separate lawsuits have been filed in three different federal district courts. The courts have rendered very favorable decisions opposing the lenders' requests to have the cases dismissed. Each federal district court has ruled that the cases can proceed based on intentional and disparate impact claims of discrimination[87].

3.4.1 Real Estate Sales Discrimination

Last year, Newsday released an alarming report, Long Island Divided, documenting high levels of discrimination Long Island in New York. Newsday's three-and-a-half-year investigation entailed 240 hours of secretly recorded meetings between fair housing

[87] See: National Fair Housing Alliance. (August 13, 2019). *Court Denies Fannie Mae's Motion to Dismiss in Fair Housing Discrimination Lawsuit.* [Press Release] Retrieved from https://nationalfairhousing.org/2019/08/13/court-denies-fannie-maes-motion-to-dismiss-in-fair-housing-discrimination-lawsuit/
National Fair Housing Alliance. (July 18, 2019). *Judge Denies Bank of America's Motion to Dismiss in Critical Fair Housing Lawsuit.* [Press Release] Retrieved from https://nationalfairhousing.org/2019/07/18/judge-denies-bank-of-americas-motion-to-dismiss-in-critical-fair-housing-lawsuit/
National Fair Housing Alliance. (November 15, 2019) Federal Court Green-lights Fair Housing Discrimination Claims Against Major Financial Services Companies. [Press Release] Retrieved from https://nationalfairhousing.org/2019/11/15/federal-court-greenlights-fair-housing-discrimination-claims-against-deutsche-bank-altisource-and-ocwen/

testers and real estate agents and an analysis of 5,764 house listings. It revealed a 19 percent rate of discrimination against Asian Americans, a 39 percent rate of discrimination against Latinos, and a 49 percent rate of discrimination against African Americans. Altogether, the agents in the Newsday investigation gave White testers 50 percent more listings than those given to their equally qualified Black counterparts.

The findings in the Newsday investigation were not new. They bear strikingly similar patterns uncovered during a multi-year, 12-city investigation conducted by NFHA from 2003 – 2007. In that investigation, NFHA found an 87 percent rate of racial steering. In both the Newsday and NFHA investigations, real estate agents used schools as a racial proxy for steering consumers. Additionally, both investigations also revealed the following patterns of discrimination:

- Agents provided differences in the level and type of services;
- Agents showed Borrowers of Color far fewer homes than they showed White home seekers;
- Agents gave inaccurate information to People of Color;
- Agents refused to return the phone calls of or respond to People of Color;
- Agents placed higher requirements on People of Color; and
- Agents made disparaging racial statements.

In the aftermath of the Newsday investigation, civil rights leaders and industry leaders, including NAREB, have called for sweeping changes in the real estate market to include[88]:

- Increasing diversity and inclusion in the real estate industry;
- Increasing the number of real estate sales offices in Communities of Color;
- Providing financial support for fair housing testing, research, and education;
- Providing high-quality, comprehensive fair housing training for real estate professionals;
- Implementing serious consequences for violations of fair housing laws;
- Increasing transparency around pocket listings;
- Developing fair housing best practices and protocols for real estate professionals;
- Increasing effective enforcement of fair housing laws; and
- Increasing the participation of real estate professionals in the Affirmatively Furthering Fair Housing process which is overseen by HUD;

3.4.2 The Fight for Fair Housing – Stopping Recent Attempts to Roll Back Critical Fair Housing Protections

The Trump Administration has engaged in numerous efforts to roll back fair housing and civil rights[89]. Perhaps one of the most important civil rights tools to come under attack is the Affirmatively Furthering Fair Housing (AFFH) standard. The Administration proposed

[88] c Cloud, Cat, Debby Goldberg, Lisa Rice, Jorge Soto, and Morgan Williams. Fair Housing Solutions: Overcoming Real Estate Sales Discrimination. National Fair Housing Alliance. December, 2019. Retrieved from https://nationalfairhousing.org/wp-content/uploads/2019/12/Fair-Housing-Solutions-Overcoming-Real-Estate-Sales-Discrimination-2.pdf

[89] National Fair Housing Alliance. Defending Against Unprecedented Attacks on Fair Housing: 2019 Fair Housing Trends Report. (2019) Retrieved from https://nationalfairhousing.org/wp-content/uploads/2019/10/2019-Trends-Report.pdf

a new rule in January 2020 that would effectively gut AFFH making it harder to address housing discrimination.

In an effort to help eliminate discrimination and reverse centuries of discriminatory housing policies and practices, many established by the federal government, Congress passed the Fair Housing Act of 1968. The law, which NAREB helped to pass, included the AFFH provision which requires any jurisdiction or entity that receives federal funds for any housing or urban development purpose to utilize those funds in a way that affirmatively furthers the goals and principles of the Fair Housing Act. In effect, these entities must administer their funds and programs in a non-discriminatory fashion, help reduce residential segregation and work affirmatively to promote fair housing.

The Trump Administration's attack on AFFH could not have come at a worse time. Communities have erupted in protests in the aftermath of the murders of George Floyd, Tony McDade, Sean Reed, Breonna Taylor, and Ahmaud Arbery. The protests are not only about these senseless murders; protestors are marching because they are fighting to ensure this country embodies its greatest ideals and lives up to the promise it made to the American people. That promise cannot be kept without tackling and redressing our nation's legacy of housing discrimination and its stubbornly entrenched harms.

When it comes to housing and lending patterns, we might as well be living in 1890. Our communities are more segregated today than they were 100 years ago and the racial homeownership gap – at 30% points - is back to where it was in 1890[90]. The gap is larger than it was when redlining was legal. According to the U.S. Census, the homeownership rate for Whites is roughly 74%. Comparatively, the rate for Blacks and Latinos is 44% and 49% respectively. Whites have 10 times the wealth of Blacks and 8 times the wealth of Latinos. Lending redlining is flourishing and housing discrimination is still the norm in too many communities.

Our markets are not fair. They do not work for people of color, women, and people with disabilities.

The bias in our markets is not a bug but a feature. They were built that way and intended to operate in a discriminatory fashion. They will continue to do so until we make structural, systemic, and cultural changes. From the inception of this nation, our housing and finance policies were explicitly discriminatory. They created biased systems that still exist today – residential segregation, the dual credit market, and other unfair systems. We continue to see disparities and discrimination because we have not dismantled these structures of inequality.

One of the major tools for undoing legacy systems of inequality, fashioning fairer policies, and encouraging investments in underserved areas is the AFFH provision of the Fair Housing Act. It provides a mechanism for jurisdictions and entities to identify barriers to fair housing and design meaningful, effective solutions for overcoming those impediments. It helps ensure that Communities of Color -which are disproportionately credit, health,

[90] Levitin, Adam J. (June 17, 2020). "How to Start Closing the Racial Wealth Gap." *American Prospect*. Retrieved from https://prospect.org/economy/how-to-start-closing-the-racial-wealth-gap/

education, food, water, and job deserts - can become communities full of the opportunities people need to thrive and live healthy lives.

NAREB has joined many others, including NFHA, NAHREP, and AREAA in calling on HUD to pull back the harmful proposal the Trump Administration released in January 2020 and to reinstate the comprehensive effective AFFH rule that was promulgated in 2015. Without full and complete enforcement of our nation's fair housing laws, we will never be able to address the racial wealth and homeownership gaps. It is both a moral and economic imperative that we use every tool at our disposal to create a fair and equitable society. Full implementation of the 2015 AFFH rule is an important way to help make that happen.

3.5 ARTIFICIAL INTELLIGENCE AND MACHINE LEARNING (AI/ML) IN REAL ESTATE

OVERVIEW OF AI/ML IN REAL ESTATE

Lauren Rhue

Artificial intelligence and machine learning (AI/ML) are poised to influence the real estate industry. The purpose of AI/ML is to find patterns in data for use in decision-making, and AI/ML can shape each decision in the real estate transaction process, from home search to closing.

Several companies are already invested in AI/ML solutions for real estate. The following three examples demonstrate the uses of AI/ML related to real estate.

1. Zillow and Redfin housing platforms use predictive models to estimate the market value for each house. The models use structured home attributes, such as the number of bedrooms, and also "scan" uploaded images for unstructured home attributes, such as curb appeal and granite countertops.[91] Those price estimates influence housing markets.[92] Because these sophisticated models are proprietary, real estate agents and homeowners cannot "see" the models' rationale for these home estimates. These models may systematically undervalue houses in black neighborhoods or by black owners.
2. Social media platforms like Facebook offer micro-targeting capabilities to advertisers, and this microtargeting is driven by their predictive models. Facebook provides advertisers with the potential to include or exclude specific racial groups, even for real estate ads, so HUD sued Facebook for housing discrimination and violating the Fair Housing Act.[93]
3. Lenders are ready to incorporate AI/ML into their credit decisions. One paper found that five digital attributes out-predict credit score for credit applicants on a digital platform: operating system, computer or tablet, time of day, email domain, and name. [94] The biggest deterrent to greater use of AI/ML in lending is the legal requirement that lenders must inform denied applicants of the reason for their credit denial.[95]

These three examples highlight the potential of these predictive models to transform real estate markets. These types of AI/ML tools could eventually be incorporated into the appraisal and other processes.

91 Zillow's AI/ML & Research. https://www.dotloop.com/blog/artificial-intelligence-in-real-estate/

92 Harney, K.R. (2019) Which is more accurate: Zillow's Zestimate or Redfin's Estimate? Washington Post, Feb. 20, 2019. https://www.washingtonpost.com/realestate/which-firm-has-more-accurate-online-estimates-for-homes-zillow-or-redfin/2019/02/19/7a1f6436-346b-11e9-a400-e481bf264fdc_story.html

93 Jan, T., and Dwoskin, E. (2019). HUD is reviewing Twitter's and Google's ad practices as part of housing discrimination probe. Washington Post, March 28, 2019. https://www.washingtonpost.com/business/2019/03/28/hud-charges-facebook-with-housing-discrimination/

94 Berg, T., Burg, V., Gombović, A., & Puri, M. (2020). On the rise of fintechs: Credit scoring using digital footprints. The Review of Financial Studies, 33(7), 2845-2897. https://www.fdic.gov/bank/analytical/cfr/2018/wp2018/cfr-wp2018-04.pdf

95 Klein, A. (2019). Credit Denial in the Age of AI. Brookings Institution, A Blueprint for the Future of AI. https://www.brookings.edu/research/credit-denial-in-the-age-of-ai/

3.5.1 AI/ML and Black Homeownership

AI/ML models base their statistical inference on historical data, and historical data can reflect racial disparities. Historical data can include overt anti-black discrimination, such as persistent lower neighborhood values in formerly redlined areas,[96] and also discrimination by proxy, such as using healthcare spending as a proxy for illness disproportionately affects black patients.[97]

In the real estate context, AI/ML could increase or decrease racial disparities. Black borrowers face 3.6 higher basis points on their interest rates for home purchases and refinancing loans,[98] a pattern that could be picked up by predictive models. However, initial research found that algorithms from online-only lenders discriminated 40% less than borrowers with face-to-face lenders.[99] Because homeownership is such an individualized process, automated discrimination is more difficult to detect.

The move towards AI/ML in real estate will provide new challenges and opportunities for black homeownership. The growing concern over algorithmic discrimination is generating increased interest in AI/ML fairness, but black homeownership could be negatively impacted by AI/ML unless there is consistent oversight to guard against perpetuating patterns of discrimination.

By Lauren Rhue, PhD

Lauren Rhue is an Assistant Professor of Information Systems at the University of Maryland Robert H. Smith School of Business. Before joining the faculty at Smith, she spent five years as an Information Systems faculty member at the Wake Forest School of Business. Lauren received a Ph.D. from the New York University Stern School of Business in Information Systems and a B.S. degree in Management Science and Engineering from Stanford University. She studies social and economic implications of technology platforms as well as the management and fairness of algorithms. Lauren's research has been published in *MISQ and Social Networks,* and she has presented at numerous conferences and companies.

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Authors and Contributors

Vanessa Gail Perry, MBA, Ph.D. is a Professor of Marketing, Strategic Management and Public Policy at the George Washington University School of Business. Her research examines the effects of business practices and public policy responses on consumers in housing and mortgage markets and has been published widely in scholarly journals and practitioner-oriented outlets. Professor Perry has also served as Senior Advisor for Housing Finance at the U.S. Department of Housing and Urban Development, and as an expert at the U.S. Consumer Financial Protection Bureau. Before joining the faculty at GWU, Professor Perry was a Senior Economist at Freddie Mac. Professor Perry holds a BA in Philosophy from The American University, an MBA from Washington University in St. Louis, and a Ph.D. from the University of North Carolina at Chapel Hill.

Michelle Aronowitz is a civil rights attorney in private practice in New York and founder of the Law Office of Michelle Aronowitz, a civil rights law and consulting firm focusing on fair housing and fair lending, immigrant and public benefits, public and affordable housing, and employment and other civil rights-related issues. She recently served in the Obama Administration as Deputy General Counsel for Enforcement and Fair Housing at the U.S. Department of Housing and Urban Development. Prior to that, Aronowitz was Deputy Solicitor General for the State of New York, Associate Counsel to President Clinton, and trial attorney at the U.S. Department of Justice Civil Rights Division, Appellate Section, and Housing and Civil Enforcement Section. She was an adjunct professor for appellate advocacy at Howard University and a judicial law clerk on the U.S. Court of Appeals for the Ninth Circuit. Michelle also worked as a summer associate at the NAACP Legal Defense Fund and the Center for Constitutional Rights. She graduated from Stanford Law School (with distinction) and Yale University, and she currently serves on the Board of Trustees for the Fair Housing Justice Center and the New Economy Project in New York City.

Jung Hyun Choi is a research associate with the Housing Finance Policy Center at the Urban Institute. She studies urban inequality, focusing on housing, urban economics, real estate finance, and disadvantaged populations in the housing market. Before joining Urban, Choi was a postdoctoral scholar at the University of Southern California Price Center for Social Innovation, where her research examined innovative housing and social policies to enhance the quality of life for low-income households. Choi holds a Ph.D. in public policy and management from the Price School of Public Policy at the University of Southern California.

Edward Golding is the executive director of the MIT Golub Center for Finance and Policy. Ed served as the head of the Federal Housing Administration from 2015-2017 and as a senior advisor in the U.S. Department of Housing and Urban Development from 2013-2015. Golding was also an executive at the Federal Home Loan Mortgage Corporation (Freddie Mac) from 1989-2012, where he headed model development, strategy, and investor relations and developed a national reputation for visionary leadership in housing finance policy. He has taught at Columbia, Princeton, Florida, and Wharton and has been a visiting fellow at the Urban Institute. He earned an AB degree in applied mathematics from Harvard University in 1976 and a Ph.D. in economics from Princeton University in 1982.

Morgan Green is a creative coder interested in systems of information and the many ways they interact. In her data work, she uses analysis and design to clarify and answer questions about systemic inequality. She visualizes information in a way that attends to the history and theory of design, out of a belief that this practice improves data's impact. Her studio art practice, on the other hand, uses computing to provoke questions rather than answer them.

Green's data work has included gathering statistical evidence of predatory lending from big banks, in order to assist with litigation. Her artwork has been shown in galleries and film festivals across the United States and collected by public institutions including the Special Collections at Amherst College. She holds an MFA from the School of the Art Institute of Chicago. Currently, she teaches creative computation at the University of Illinois, Chicago.

Richard K. Green, Ph.D., is the Director of the USC Lusk Center for Real Estate. He holds the Lusk Chair in Real Estate, is a Professor in the USC Sol Price School of Public Policy and the Marshall School of Business, and is a Trustee of the Urban Land Institute.

His research addresses housing markets, housing policy, tax policy, transportation, mortgage finance, and urban growth. Previously, he served as Senior Advisor for Housing Finance at the US Department of Housing and Urban Development, and as a principal economist and director of financial strategy and policy analysis at Freddie Mac. Dr. Green earned his Ph.D. and M.S. in economics from the University of Wisconsin-Madison. He earned his A.B. in economics from Harvard University.

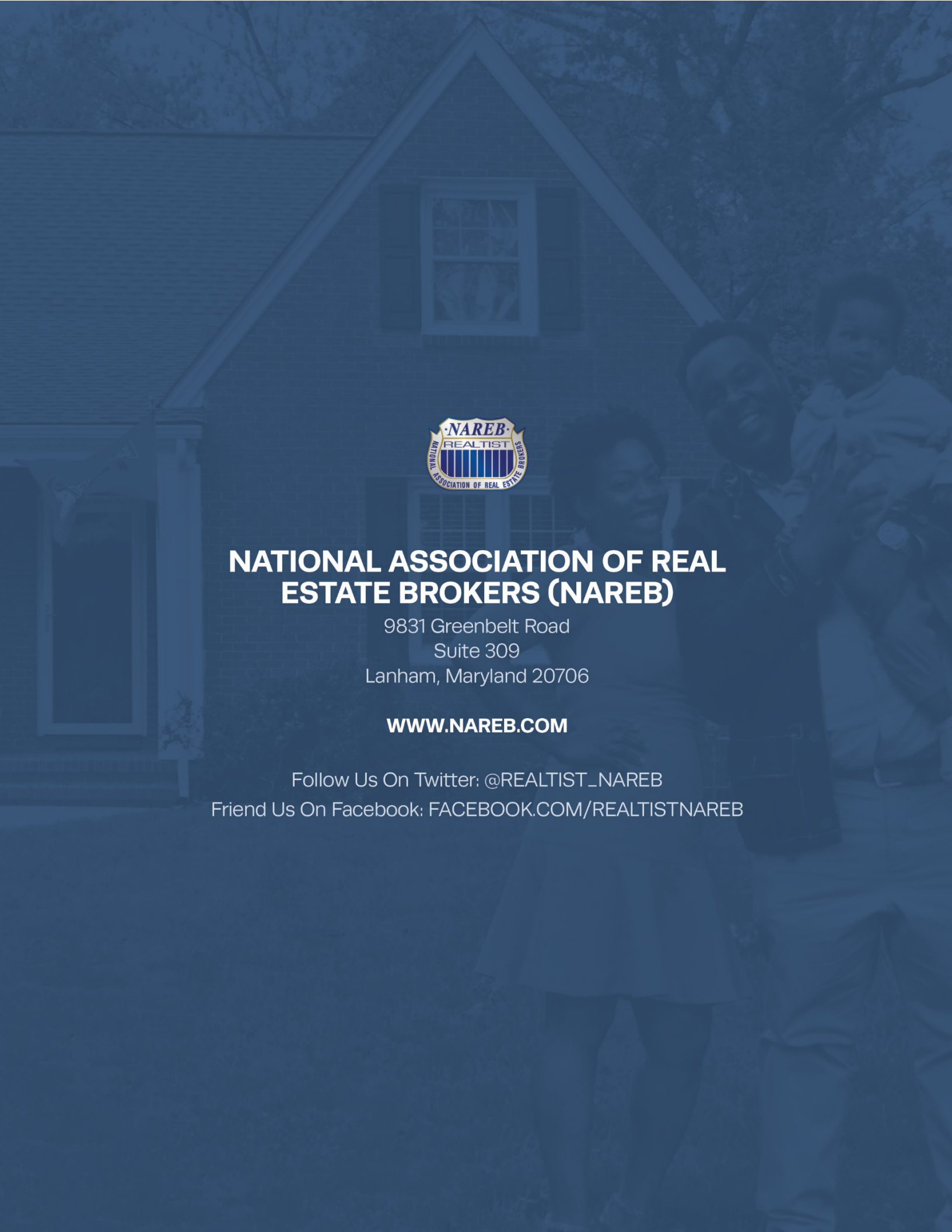
Maurice Jourdain-Earl is the co-founder and Managing Director of ComplianceTech. The company's mission is to help transform the world into a place where credit providers and government agencies use technology to help people develop policies, practices, and procedures to monitor and ensure that all creditworthy borrowers have fair access to credit. Maurice is a noted speaker and writer on HMDA and fair lending practices. He has a degree in Social Science from DePaul University.

Ashlyn Aiko Nelson is an Associate Professor in the O'Neill School of Public and Environmental Affairs at Indiana University - Bloomington. Her research examines the causes and consequences of inequality in the housing and education policy sectors. Prior to her current appointment, Nelson completed a postdoctoral fellowship with the Center for Education Policy Analysis at Stanford University. In addition to her academic background, Nelson formerly served as Assistant Vice President of Analysis and Information Management at Bank of America, served as the fair lending officer at IndyMac Bank, and earned her teaching credential while teaching eighth and eleventh grade English in the Los Angeles Unified School District.

Lauren Rhue is an Assistant Professor of Information Systems at the University of Maryland Robert H. Smith School of Business. Before joining the faculty at Smith, she spent five years as an Information Systems faculty member at the Wake Forest School of Business. Lauren received a Ph.D. from the New York University Stern School of Business in Information Systems and a B.S. degree in Management Science and Engineering from Stanford University. She studies social and economic implications of technology platforms as well as the management and fairness of algorithms. Lauren's research has been published in *MISQ and Social Networks,* and she has presented at numerous conferences and companies.

Lisa Rice is President and CEO of the National Fair Housing Alliance (NFHA). She leads efforts by NFHA and its partners to advance fair housing principles and to preserve and broaden fair housing protections, expanding equal housing opportunities for millions of Americans. Ms. Rice played a major role in crafting sections of the Dodd-Frank Wall Street Reform and Consumer Protection Act and in establishing the Office of Fair Lending within the Consumer Financial Protection Bureau. Prior to becoming President and CEO, she served as NFHA's Executive Vice President and managed the organization's resource development, public policy, communications, and enforcement divisions. Ms. Rice is a member of the Leadership Conference on Civil and Human Rights Board of Directors, Center for Responsible Lending Board of Directors, JPMorgan Chase

Consumer Advisory Council, Mortgage Bankers Association's Consumer Advisory Council, Freddie Mac Affordable Housing Advisory Council, Urban Institute's Mortgage Servicing Collaborative, and Quicken Loans Consumer Advisory Forum.



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Suite 309
Lanham, Maryland 20706

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