THE RACIAL GAP IN HOMEOWNERSHIP AND HOME LENDING

Introduction

Equity in a home has long been a pathway for building wealth and a mechanism for expanding the middle class in America. However, white people have had more opportunities to achieve economic security and upward mobility through homeownership than people of color.

Historically, the federal government both ignored discriminatory policies and practices such as housing covenants that prohibited the resale of homes to minorities, and actively promoted the exclusion of families of color from mortgage loan subsidies provided by the Federal Housing Administration (FHA). Through the GI Bill, over $120 billion in home loans were financed by the U.S. Department of Veterans Affairs (VA) and FHA before 1962, and less than 2 percent went to buyers of color.¹ These policies increased residential segregation and widened the racial home equity gap. Recently, “fringe” financial companies aggressively marketed predatory high-interest rate subprime loans and risky adjustable rate mortgage products in communities of color without government oversight. Restrictive zoning practices that prevent the construction of affordable housing in high value areas have also served to block homeownership as a pathway to wealth accumulation for households of color.

Homeownership is more than a financial investment. It can also be a gateway to quality education, safe neighborhoods, and better employment opportunities, and to increase community commitment and civic participation. Policymakers have a responsibility to support policies and programs that provide safe and affordable homeownership opportunities. Home ownership has been a successful strategy for economic empowerment that can be extended to all Americans in all our urban and rural communities.

People of Color Own Fewer Homes and Have Less Home Equity

White families have significantly higher rates of homeownership and more equity in their homes than racial and ethnic minorities, as the latest data available shows below.

- The homeownership rate in 2007 was 75 percent for white families compared to 47 percent for African Americans, 50 percent for Latinos, 57 percent for Native Americans, and 60 percent for Asian Americans.²

- Due to high levels of residential segregation, market forces lead to significantly lower home values in communities of color where demand is low. Half of the black-white wealth gap can be attributed to segregation.³

- Over 40 percent of Native Americans live in rural minority counties, the median home value of homes owned by Native Americans in these counties is $36,800 compared to $71,300 for white median home values in these counties.⁴
While the median value of homes owned by Asian Americans looks higher than that of white homeowners, the Asian population is concentrated in only three metropolitan areas all with high home prices and costs of living. In addition, while Chinese and South Asians are doing well, Hmong and Laotians are not likely to be homeowners, and tend to live in overcrowded conditions.  

While recent declines in home values have made home equity a less powerful mechanism for building wealth, it is still particularly important to families of color who still consider homeownership as the main vehicle for achieving the American dream.

Unfair Lending Practices and Housing Discrimination Foster Inequality

Borrowers of color have been subject to questionable lending practices. Data shows that racial and ethnic disparities in lending treatment exist even after accounting for borrower risk factors, and borrowers of color have therefore been particularly hard hit by the foreclosure crisis.

- African-Americans and Latinos have been almost a third more likely to get a high-priced loan than white borrowers with the same credit scores; not just lower-income but higher-income African Americans and Latinos were subjected to this disparate treatment.

- For African-Americans, Hispanics, Asian Americans and Native Americans, racial disparities in subprime lending exist in all regions of the country. The disparity level reaches as high as 3.25 or more in the Midwest and Great Plains.

- A 2003 survey of tribal housing executives found that 53 percent of respondents believed that lenders discriminated based on race and identified predatory lending in their tribal area as a serious concern.

- In predominantly black neighborhoods, high-cost subprime loans accounted for 51 percent of home loans in 1998 - compared with only 9 percent in predominately white areas.

- An estimated 2.2 million subprime home loans made in recent years have already or will soon result in foreclosure; these foreclosures are expected to cost homeowners—disproportionately in communities of color—as much as $165 billion in lost home equity.

- The lack of federally insured banks in minority and immigrant neighborhoods and reservations, and the lack of language/culturally appropriate loan products lead to people of color having less access to credible lending institutions.
Homebuyers of color are more likely to receive less information and less favorable treatment than their white counterparts, contributing to continued residential segregation.\textsuperscript{14} White homebuyers were consistently favored over blacks in 17 percent of tests in which black and white actors with the same financial backgrounds sought homes, and over Hispanics in 20 percent of such tests. Whites were more likely to receive information, assistance with financing, and to be shown homes in predominantly white neighborhoods.\textsuperscript{15} As a result, the housing choices, school choices and home equity value of many people of color are limited.

**Increasing Minority Home Ownership Improves Our Economy**

- An estimated 41 million homes in neighborhoods surrounding foreclosed homes will suffer price declines averaging over $8,667 per home.\textsuperscript{16} Stabilizing properties in danger of foreclosure protects the equity of all homeowners.

- The quality of neighborhood schools is inextricably linked with the value of the surrounding homes. If people of color were not disproportionately steered into neighborhoods with poorer quality schools and lower housing values,\textsuperscript{17} their children would gain the education necessary for our nation to more effectively compete in the global economy.

- Each property that is foreclosed costs local taxpayers between $5400 and $7000 as local governments deal with the costs of maintenance and public auction, costs they can ill afford.\textsuperscript{18}

- As property values decrease, local tax revenues also go down, affecting all public services.

**Recommendations**

Recommendations to close the racial and ethnic gap in housing-related wealth opportunities include:

1. **Set a national goal** of providing quality housing for all.

2. **Preserve communities** by making low-cost loans available to community based development corporations to buy foreclosed properties and to maintain them as affordable housing; developers and speculators are already buying some foreclosed properties for future gentrification.

3. **Strengthen and enforce** Title VIII of the Civil Rights Act of 1968 (Fair Housing Act) to affirmatively close the gap.
   
   - Eliminate all forms of discrimination in the housing market including marketing, access, retention and growth under the Fair Housing, Fair Lending, and Equal Credit Opportunity Acts; audit banks using matched actor pair testers as HUD did with real estate agents.
   
   - Federalize credit scoring and establish clear standards for the collection and use of credit data; standardize and make transparent the interest rates homebuyers are eligible for based on their credit score.
   
   - Expand the CRA to cover the majority of lending institutions to ensure that families of color and minority communities receive their fair share of home mortgage loans.
   
   - Encourage the development of reasonable and appropriate mortgage products that build on the savings and investments beliefs and practices of the populations in that market.

4. **Establish an effective regulatory system** for the subprime financial market. Financial professionals should be made legally responsible for selling products that are appropriate to low income borrowers.
5. **Promote racially and economically integrated** housing opportunities.

- Establish affordable housing initiatives in higher income communities and at transit nodes to provide access to enhanced property values, better school districts, and jobs.
  
  - Require states to equitably allocate Low Income Housing Tax Credits (LIHTC) developments in neighborhoods with high performing school districts.
  - Increase rental and mortgage opportunities in communities with quality schools.
  - Provide affordable housing tax credits near transportation nodes.

6. **Create neighborhoods of opportunity** by mandating that capital investments (e.g., schools, infrastructure, transportation, commercial development) supported by federal subsidies or programs be located in areas with inclusionary zoning policies.

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**About Us**

The Insight Center for Community Economic Development is a national research, consulting and legal organization dedicated to building economic health in disenfranchised communities.

This factsheet was produced as part of our **Closing the Racial Wealth Gap Initiative**, a national effort to close the racial wealth gap for the next generation by injecting over 140 members of the **Experts of Color Network** into the national debate on America’s future. Experts on this issue include James Carr, Nandisee Kutty, Ph.D., Roger Clay, Luis Granados, John Powell, Aracely Panameño, Keith Corbett, Lisa Hasegawa, Jacqueline Johnson Pata, Paul Ong, Ph.D., Robin Danner.

For more information please visit [www.racialwealthgap.org](http://www.racialwealthgap.org) and [www.expertsofcolor.org](http://www.expertsofcolor.org).

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9. Ibid.
10. Ibid.


15 Ibid.

