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Crisis, Response, and Recovery: The Federal Government and the Black/White Homeownership Gap

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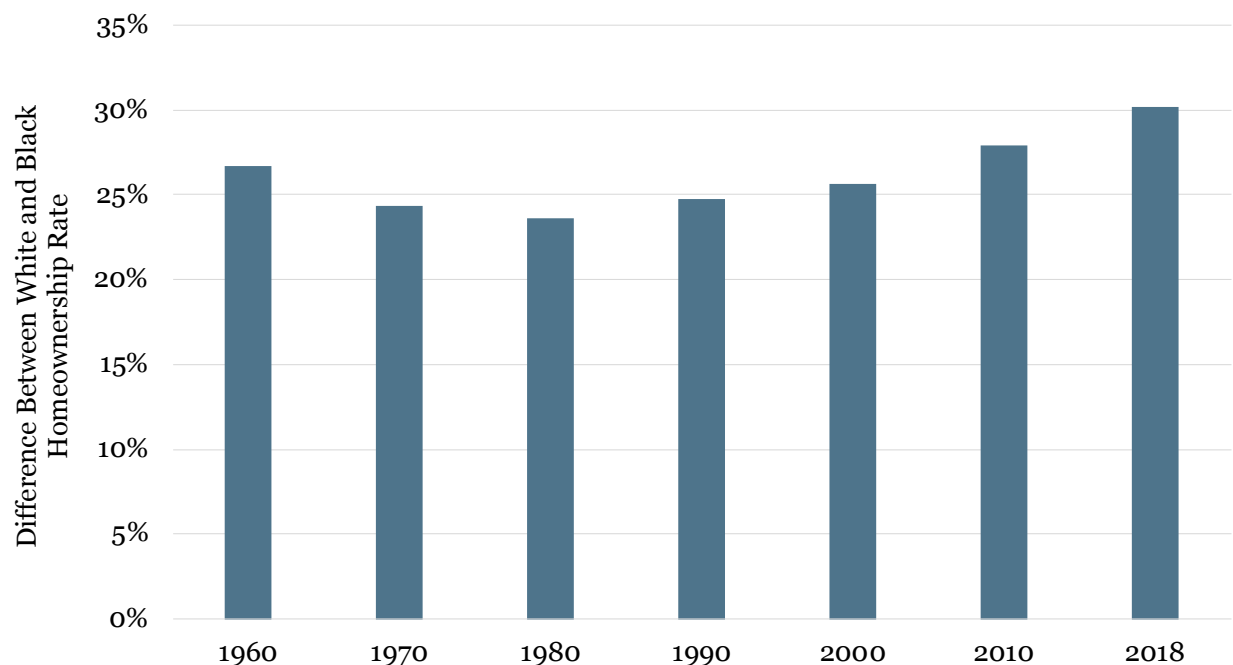
Introduction

Today, the median non-Hispanic White household holds almost \$190,000 in wealth—7.8 times that of the median Black household (\$24,100).¹ While the drivers of the racial wealth gap are complex, disparities in access to homeownership, as well as in the financial benefits that homeownership confers, play a key role in shaping this inequality.² In 2018, only 42 percent of Black households owned a home, compared to 73 percent of non-Hispanic White households. This homeownership gap is larger than it was in 1968, before discrimination was legally outlawed, demonstrating the enduring effect of structural racism in housing and mortgage markets (Figure 1). Indeed, the racialized history of housing policy in the U.S., including racial covenants, redlining, and discriminatory credit practices, have shaped not only who has access to homeownership, but also its returns.

Researchers have estimated that homes in black neighborhoods are undervalued by an average of \$48,000, amounting to \$156 billion in cumulative losses.³

The Biden-Harris Administration has made racial equity one of its top priorities, recognizing that systemic racism continues to shape contemporary access to opportunity.⁴ This attention to racial inequality is long overdue, and is relevant to multiple policy domains, including social and labor market policies, criminal justice, and education. Yet housing remains a central axis by which racial inequality is produced and sustained. Historically, the federal government has played an outsized role in promoting policies that discriminate against Black households in housing and mortgage markets, histories that have been powerfully illuminated in books like *The Color of Law* by Richard Rothstein and *Race for Profit* by Keeanga-Yamahtta Taylor, as well as in the work

Figure 1: The Black/White Homeownership Gap, 1960 - 2018



Source: Goodman, L., Zhu, J., & Pendall, P. (2017). "Are Gains in Black Homeownership History?" The Urban Institute. Retrieved from: <https://www.urban.org/urban-wire/are-gains-black-homeownership-history>.

of Ta-Nehisi Coates in “The Case for Reparations” and Nikole Hannah-Jones in *The 1619 Project*.

The last decade has thrown into sharp relief the failures of federal public policy to repair these harms. Disparate outcomes for Black homeowners are not a thing of the past. Despite the passage of laws like the Fair Housing Act and the Equal Opportunity Credit Act, the 2007-2010 foreclosure crisis and the recovery that followed point vividly to the ways in which housing and mortgage markets are still deeply segmented by race. They also point to the limitations of the government response to that crisis. Rather than stepping in boldly with direct aid to homeowners, the policy response was shaped by racialized narratives of who was “deserving” of aid and the unwavering belief that private actors—such as mortgage servicers and investors—were the best placed to provide aid to hard-hit borrowers and communities. These failures of government led to a deeply uneven recovery for Black homeowners and communities, widening not only the racial wealth and homeownership gap, but also fueling gentrification and displacement pressures in some Black communities.

The lack of an effective government response to the foreclosure crisis—let alone one centered on principles of racial equity—holds important lessons for federal housing policy, particularly as the new administration develops responses to the economic crisis caused by the novel coronavirus (COVID-19) pandemic. How the federal government chooses to protect Black homeowners now, and whether it chooses to implement policies that ensure equitable recovery for Black households over the coming years, will have a profound impact on the racial homeownership

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and wealth gap in the future. The policies proposed by the Biden-Harris Administration represent an important first step in promoting an equitable recovery, including efforts to address the pandemic and provide immediate financial support to households and small businesses. The recently passed stimulus package, which includes critical support for renters and families with children, will do a lot to mediate the worst impacts of the crisis on American families. But the goal of closing the racial wealth gap is going to need a broader set of federal interventions that consider and affirmatively address the longstanding impact of discriminatory government policies on Black households and communities.

This paper explores how federal policy has helped forge and reinforce disparities in access to homeownership and wealth building for Black households over time. It considers three “chapters” of major economic downturns—the Great Depression, the Great Recession, and now, the global COVID-19 pandemic—to show how the federal government’s decisions about *whom* to assist in the crisis, and *how*, has broad implications for who benefits from the recovery.

First, *The Legacy of Redlining*, reviews how the establishment of a federal housing finance system after the Great Depression played a significant role in promoting the expansion of homeownership after World War II. However, this expansion was predicated on a set of racist beliefs that largely excluded Black households from federal subsidies (for example, through Federal Housing Administration (FHA) mortgage insurance) and prohibited them from buying homes in suburbanizing neighborhoods. This section of the paper—which draws largely from existing scholarship—is designed to anchor the subsequent analysis of contemporary inequalities in these past practices of racial exclusion. The disproportionate rates of subprime lending to Black households and neighborhoods in the 2000s, for example, are not independent from the creation of a financial system that valued property and distributed credit on the basis of race. Indeed, a growing number of studies point to the enduring legacy of these maps on contemporary racial inequality.

Second, *Uneven Recovery: Black Homeownership after the Great Recession*, turns to the recent past to explore the ways in which the federal response to the foreclosure crisis failed to address the disproportionate impact foreclosures were having on Black households and neighborhoods. While not explicitly “race-based” like the practices that shaped the recovery out of the Great Depression, the federal government’s response to the foreclosure crisis was “race-blind,” missing the ways in which Black households and neighborhoods were particularly vulnerable to foreclosure. This section presents new analysis that demonstrates how the lack of a bold and affirmative set of policies to protect Black homeowners contributed to the widening racial wealth gap, as well as

to rising gentrification and displacement pressures in some neighborhoods.

Third, *The COVID-19 Pandemic*, considers the current moment, and highlights emerging evidence that Black homeowners and neighborhoods may again be disproportionately affected by the associated economic downturn. Here, policies can still make a difference. Already, lessons learned from the foreclosure crisis have led to promising interventions, such as broadly implemented mortgage forbearance programs. Yet the evidence that COVID-19 is leading to a K-shaped recovery suggests that there is still more to do to ensure that recovery from this crisis is broadly shared, and that prolonged job losses or unsustainable debt payment don’t lead to additional losses among Black homeowners.

The final section of the paper presents policy recommendations for the Biden-Harris Administration, outlining the principles that need to form the foundation for starting to repair the harms of past generations and move the country to greater racial equality in mortgage and housing markets.

While the focus here is on Black households and communities, the structural racism that continues to shape Black disadvantage negatively affects Hispanic/Latinx and Asian communities as well, as evidenced by the disparate impact of both foreclosures and the COVID-19 pandemic for these groups. Tackling anti-Black racism will benefit other structurally marginalized populations, yet doesn’t preclude the need for additional research and policies that address discrimination and disadvantage in other communities of color.

The Legacy of Redlining

Much of the infrastructure and ideas that shape today’s housing finance system—from the 30-year amortizing mortgage, to the Federal Housing Administration, to roles played by Fannie and Freddie—were established in response to the market turmoil precipitated by the Great Depression. Before then, homeowners were in the minority in this country: only one out of three households owned their home, and property ownership was limited largely to older individuals and the wealthy. Mortgages required large upfront payments, carried high interest rates, and often included a requirement to pay off the loan in full after five years. The real estate market was also characterized by limited lending guidelines, high price volatility and appraisers who used “look, spit and guess” methods of assessing property values.⁵ Homeowners seldom built equity, with interest-only payments common, and bore the risk and insecurity associated with short-term mortgages.⁶

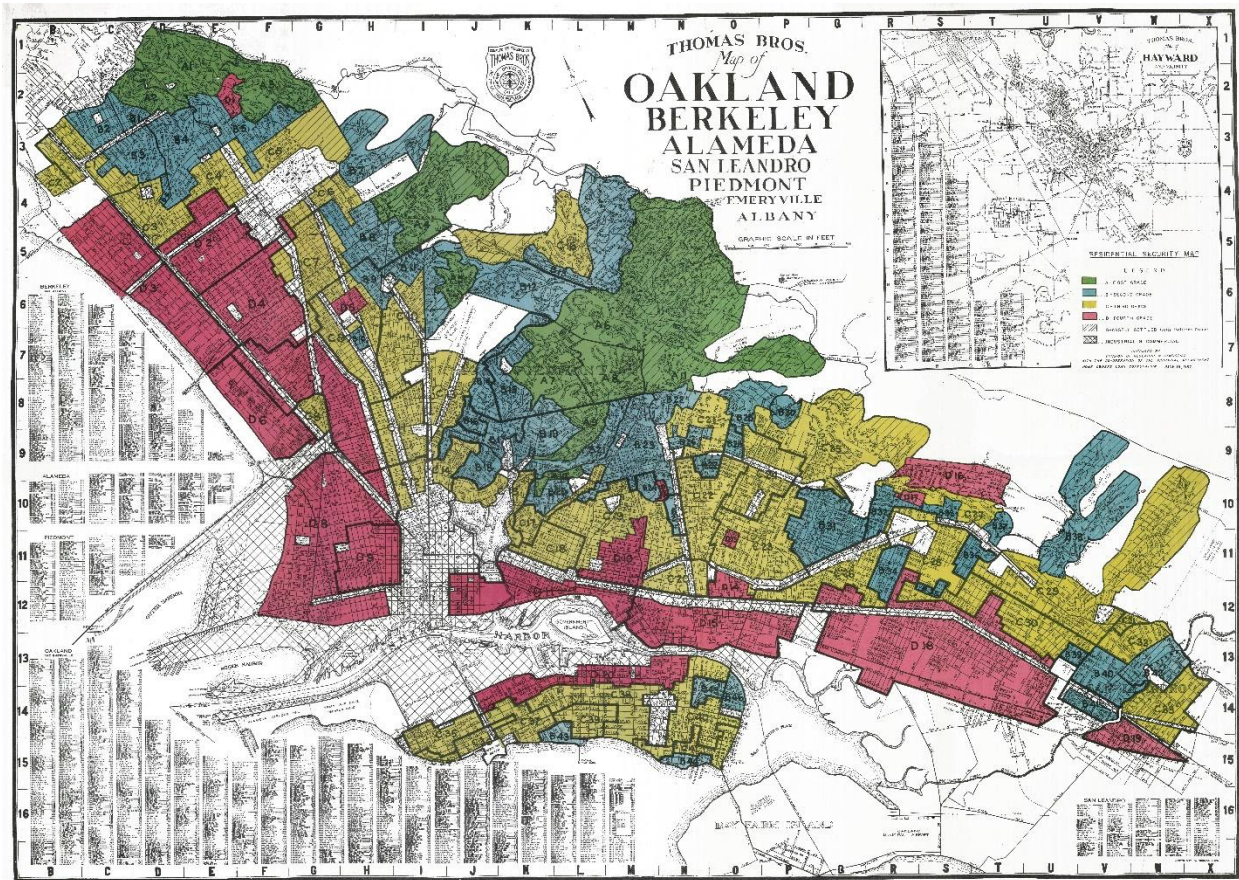
The collapse of the banking system in 1929 revealed the fragility of the existing financial system, and led to broad based reforms to bolster the U.S. economy. Among those reforms (which included the creation of the Social Security Administration and the Public Works Administration in other sectors)⁷ was the federal Home Owners Loan Corporation (HOLC), which was designed to respond to the rising wave of foreclosures confronting the nation. By one estimate, approximately half of all U.S. urban home mortgages were delinquent as of January 1, 1934.⁸ The HOLC purchased home mortgages that were facing foreclosure and refinanced them with more favorable payment terms and schedules, keeping more than a million people—over 10 percent of American

homeowners—in their homes.⁹ The HOLC also introduced amortizing home mortgages, which increased the affordability of home purchases and allowed homeowners to gradually build wealth in their homes through regular, level payments that paid down their loan balance.^{10, 11}

However, the HOLC also shaped who would benefit from the recovery, establishing a race-based system for assessing property values and risk. The HOLC hired local real estate agents to appraise properties and determine whether they would regain their value. Appraisers were instructed to consider the condition of the house as well as the surrounding neighborhood, including its racial composition, a practice that came to be known as redlining (Figure 2). A neighborhood could be designated as “low risk” and colored green if it was home to “not a single foreigner or negro...” Conversely, neighborhoods that displayed the “infiltration of inharmonious racial groups” or a “concentration of negro population” were deemed “hazardous” and colored red.¹² These maps thus codified pervasive racism in the financial system and provided the basis for *de jure* discrimination in housing and mortgage markets.¹³

As Rothstein argues, the HOLC maps “put the federal government on record” as explicitly linking Black households and communities to lower quality housing and neighborhoods.¹⁴ They also created a powerful financial incentive for maintaining patterns of racial segregation, one that was strengthened when the FHA adopted many of the same principles in its appraisal system for mortgage insurance.¹⁵ The FHA discouraged banks from making loans on properties in redlined areas, and recommended racially restrictive covenants on newly built suburban neighbor-

Figure 2: HOLC Redlining Map, Oakland, California



Source: Mapping Inequality: Redlining in New Deal America, University of Richmond Digital Scholarship Lab, available online at: <https://dsl.richmond.edu/panorama/redlining>.

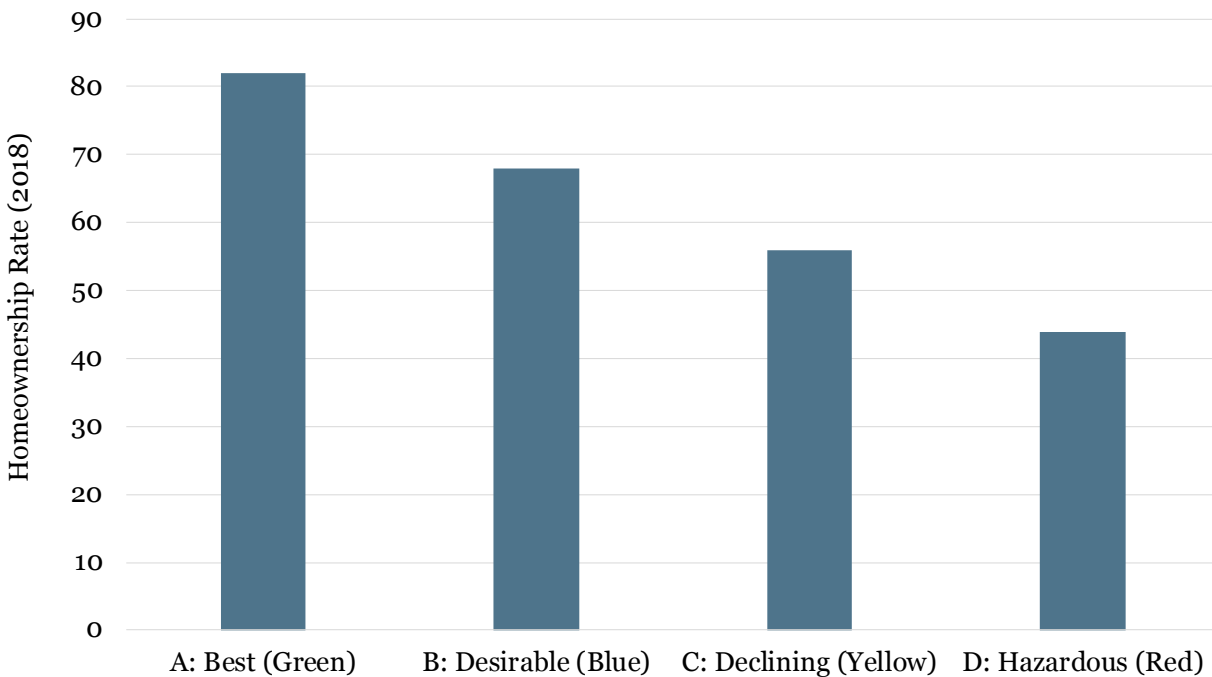
hoods to ensure white-only communities.¹⁶ Between 1940 and 1960, the Black-White homeownership gap increased from 22 to 28 percent, and in many cities, levels of racial segregation increased as these policies shaped differential patterns of residential mobility and housing access for Black and White households.¹⁷

These overt forms of *de jure* discrimination have since been outlawed. The Fair Housing Act of 1968, for example, prohibits discrimination in the housing market not only by race or ethnicity, but also based on religion, national origin, sex, disability, and family status. The Equal Credit Opportunity Act (1974), Home Mortgage Disclosure Act (1976), and the Community Reinvestment Act (1977) all

further strengthened the government's role in ensuring equal access in credit markets.¹⁸

However, prohibiting discrimination is not the same as repairing the harm that was done by past policies, and the impact of redlining endures today. In a recent study, Jacob Faber finds that cities that were appraised by the HOLC became more segregated than those that were not mapped, reinforcing the ways in which systemic racism persists in shaping contemporary patterns of inequality.¹⁹ Other researchers have drawn similar conclusions about the lasting legacy of redlining, finding that neighborhoods that were redlined are associated with higher rates of poverty, lower rates of economic

Figure 3: Relationship between HOLC Redlining Map Assessment and Contemporary Homeownership Rates



Source: Aaronson, D., Hartley, D., & Mazumder, B. (2020). "The Effects of the 1930s HOLC 'Redlining' Maps." Chicago, IL: Federal Reserve Bank of Chicago.

mobility for children,²⁰ reduced housing supply,²¹ lower life expectancy and higher incidence of chronic diseases,²² as well as lower house values and homeownership rates (Figure 3).²³

While the HOLC maps are historical artifacts, the underlying ideas about property, race, and risk persist, and have never been sufficiently addressed by the federal government. Keeanga-Yamahtta Taylor's recent book, *Race for Profit: How Banks and the Real Estate Industry Undermined Black Homeownership* vividly shows the negative consequences of not addressing these dynamics. Through an analysis of FHA's efforts in the late 1960s and 1970s to expand homeownership among Black households, she shows how the passage of anti-discrimination laws was insufficient in the face of two enduring characteristics of U.S. federal homeownership policy: the reliance on the private sector to expand

access to financial products, and the reluctance of the federal government to affirmatively further fair housing and directly tackle the persistent "conflation of race and risk to property values" (p. 259). As a result, the program led to high rates of foreclosure in Black communities. Taylor terms this "predatory inclusion," a term that could be just as easily applied to the subprime boom that precipitated the next significant economic crisis nearly 40 years later.

Uneven Recovery: Black Homeownership after the Great Recession

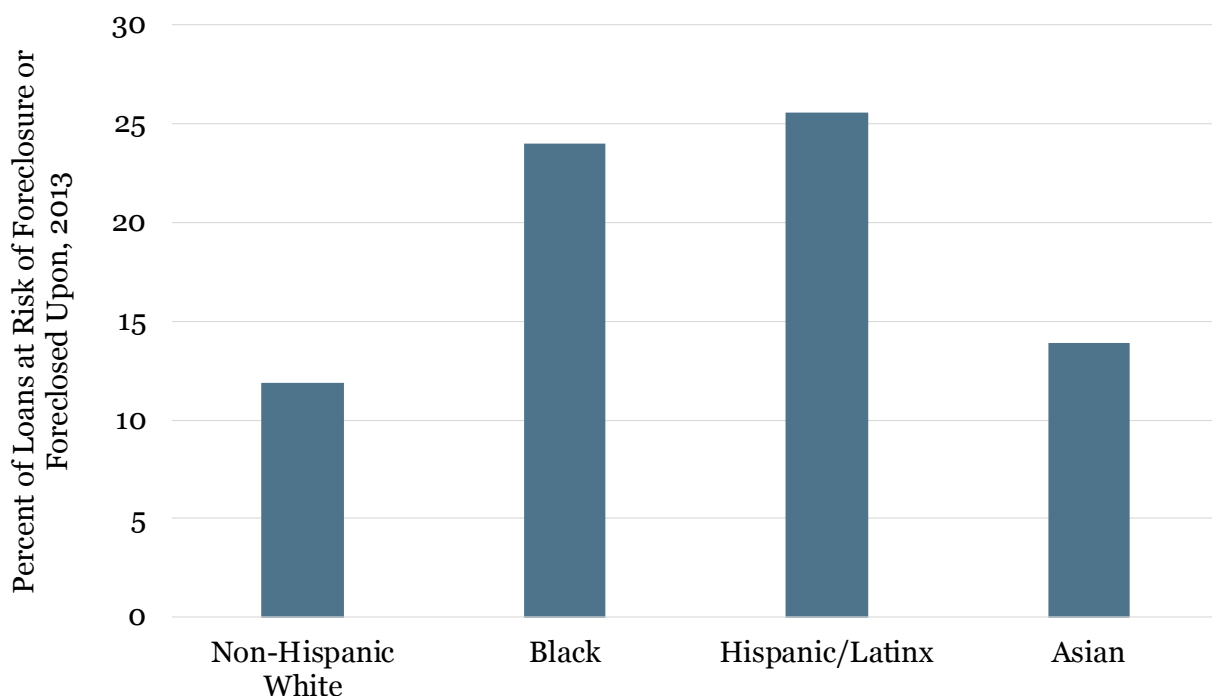
The Great Recession of 2007-2009 was one of the deepest downturns in the U.S. economy since the Great Depression, notable not only for the severity of job losses, but also for the persistence of weak economic conditions and slow labor market recovery even after the recession was officially over.²⁴ Triggered by crises in the housing and financial markets,²⁵ the unemployment rate hit its peak in October 2009 at 10 percent, when more than 15 million individuals were unemployed.²⁶ During the recession, household net worth dropped by 18 percent, or more than \$10 trillion.²⁷ A significant share of this lost wealth was due to foreclosures and falling housing values: between 2007 and 2010, approximately 3.8 million households lost their home to foreclosure,²⁸ and nearly

one in four homeowners were “underwater,” meaning their mortgage exceeded the value of their home.²⁹

This broader context of economic crisis, however, obscures the ways in which Black communities were disproportionately impacted by both the labor and housing market downturns. The unemployment rate for Black workers reached 16.8 percent in March 2010 (compared to 8.7 percent for non-Hispanic White workers), and did not reach pre-crisis levels (7.6 percent) until May of 2017.³⁰ Between 2007 and 2015, the Black-White wage gap grew to 26.7 percent, with the average White worker making \$6.73 more an hour than the average Black worker.³¹

And, just as 40 years earlier with the predatory expansion of FHA lending to Black families,³² metropolitan racial and ethnic segregation coupled with disparities in credit access created the opportunity for subprime mortgage targeting, intensifying

Figure 4: The Impact of the Foreclosure Crisis by Race/Ethnicity



Source: Reid, C., Bocian, D., Li, W., & Quercia, R. G. (2017). “Revisiting the Subprime Crisis: The Dual Mortgage Market and Mortgage Defaults by Race and Ethnicity.” *Journal of Urban Affairs* 39, no. 4: 469–87.

Note: Universe of loans includes those originated between 2004 and 2008 and tracked until January of 2013.

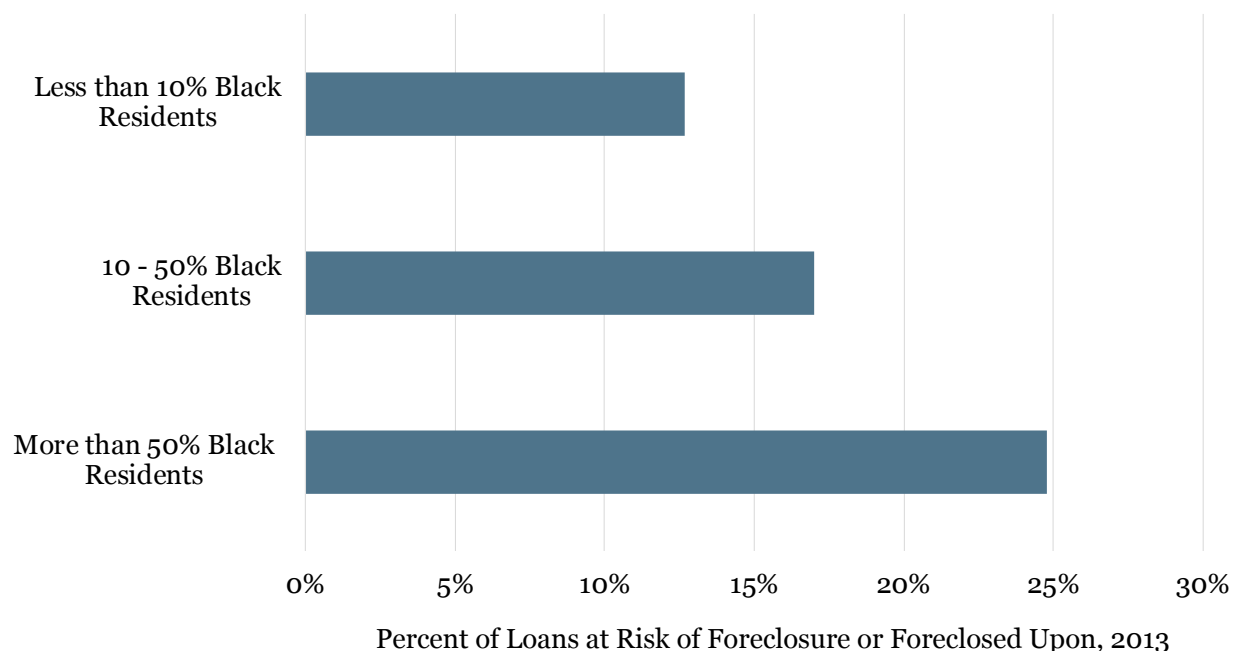
the consequences of the American housing bubble for Black households and other households of color.³³ Black and Hispanic/Latinx borrowers were disproportionately steered into the subprime market channel by lenders who targeted their marketing efforts to households and neighborhoods that had untapped demand for credit, including inner city minority neighborhoods that had previously been redlined.³⁴ These borrowers were charged higher interest rates and sold risky mortgage products with little consideration for whether they would be able to afford the home over the long term.³⁵

Subprime lending products and practices contributed directly to higher delinquency and foreclosure rates among Black and Hispanic/Latinx homebuyers, even after controlling for differences in income, credit scores, and other observable characteristics.³⁶ By 2013, more than 25 percent of Black homeowners who bought their house between 2004 and 2007—the height

of the subprime lending boom—either had lost their home to foreclosure or was at risk of doing so—a figure more than double the rate of non-Hispanic White borrowers (Figure 4).

The impacts were also spatial: neighborhoods with more than 50 percent Black residents had a foreclosure rate of twice as high as those with less than 10 percent Black residents (Figure 5). The impact of these concentrated foreclosures in Black neighborhoods went beyond the direct loss of homeownership for those families experiencing default. These neighborhoods experienced much higher rates of eviction among renters living in foreclosed buildings: while data are hard to come by, an estimated 46 percent of homes facing foreclosure over this time period were used as rental properties.³⁷ In addition, these neighborhoods were more likely to experience the negative spillover effects associated with foreclosures, including lower property values and higher rates of crime.³⁸

Figure 5: Neighborhood Foreclosure Rate by Percent Black Residents



Source: Data analysis based on Reid, C., Bocian, D., Li, W., & Quercia, R. G. (2017). "Revisiting the Subprime Crisis: The Dual Mortgage Market and Mortgage Defaults by Race and Ethnicity." *Journal of Urban Affairs* 39, no. 4: 469–87.

Note: Universe of loans includes those originated between 2004 and 2008 and tracked until January of 2013. Black refers to the percent of residents in a census tract who self-identify as Non-Hispanic Black, and does not include Hispanic Black residents or those indicating two or more races.

The Federal Government's Response to the Crisis

The U.S. government's response to the Great Recession included a wide range of fiscal and monetary interventions. Ranging from the Federal Reserve's efforts to increase liquidity in the financial markets, to the Troubled Asset Relief Program (TARP), to the American Recovery and Reinvestment Act of 2009, these interventions—while controversial—did help to reduce the severity and the length of the economic downturn. Estimates suggest that, due to the fiscal and financial responses of policymakers, real GDP was 16.3 percent higher in 2011, and unemployment was almost seven percentage points lower, than it would have been without these interventions.³⁹

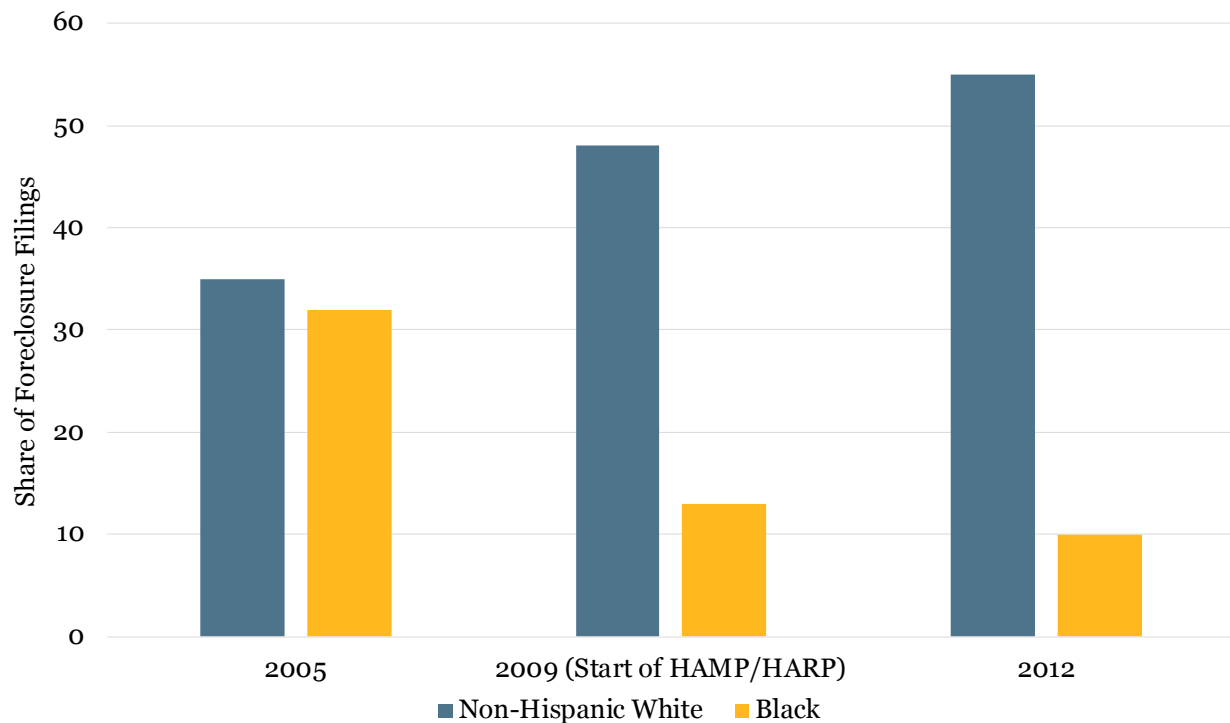
However, the policies and programs that were designed to directly intervene to assist homeowners in distress were much less successful. Even though these interventions were not intentionally discriminatory (as, for example, the HOLC's redlining practices coming out of the Great Depression were), they nevertheless failed to address the disproportionate impacts of the foreclosure crisis on Black households and communities. As a result, efforts to address the foreclosure crisis—such as the Making Home Affordable (MHA) and the Neighborhood Stabilization Program (NSP)—while on their face race-neutral, failed to address the structural reasons why Black homeowners and communities were hardest hit, and thus benefited least from the ensuing recovery.

Three factors played into this uneven recovery.

First, the federal government failed to step in with direct borrower relief early enough. Researchers and community members had raised concerns over the rise in predatory subprime lending—especially in the refinance market—in Black communities as early as 1999, and certainly well before 2007, there was evidence that foreclosures were increasing in minority neighborhoods.⁴⁰ However, it wasn't until the crisis hit Wall Street that federal policymakers started to take the stress in the housing market seriously. In addition, racialized narratives about who was to blame for the foreclosure crisis led to concerns over moral hazard and “irresponsible” borrowers choosing to strategically default rather than a focus on the structural factors that had led Wall Street to overextend its investments in subprime mortgage-backed securities.⁴¹

The primary form of borrower relief came in the form of the Making Home Affordable (MHA) program, passed in 2009. MHA included both a loan modification program (HAMP) as well as a refinance program (HARP), which encouraged lenders and mortgage services to work with borrowers in distress to renegotiate their loan terms. While research has shown that the programs themselves didn't lead to differential loan modification rates for Black borrowers,⁴² by the time these programs got off the ground, a significant share of Black homeowners had already lost their homes to foreclosure. In 2005, for instance, more than 30 percent

Figure 6: Distribution of Foreclosure Filings over Time, by Race/Ethnicity



Source: Data analysis based on Reid, C., Bocian, D., Li, W., & Quercia, R. G. (2017). "Revisiting the Subprime Crisis: The Dual Mortgage Market and Mortgage Defaults by Race and Ethnicity." *Journal of Urban Affairs* 39, no. 4: 469–87.

of recorded foreclosures were experienced by Black homeowners, despite the fact that they made up only 8 percent of outstanding mortgage liens (Figure 6). HAMP and HARP only went into effect when the share of foreclosures among non-Hispanic White borrowers had grown and become more representative of the total mortgage business. The lack of policy maker attention to the crisis that was hitting Black communities—one that was strongly related to predatory lending practices that sought to strip wealth from Black homeowners—reinforces the not-so-subtle ways that these foreclosures were initially ignored and then reframed as the result of risky borrower decisions rather than mortgage lending practices.

Government relief also didn't go deep enough.⁴³ By focusing largely on loan modifications and refinancing, HAMP and HARP did not address two major factors

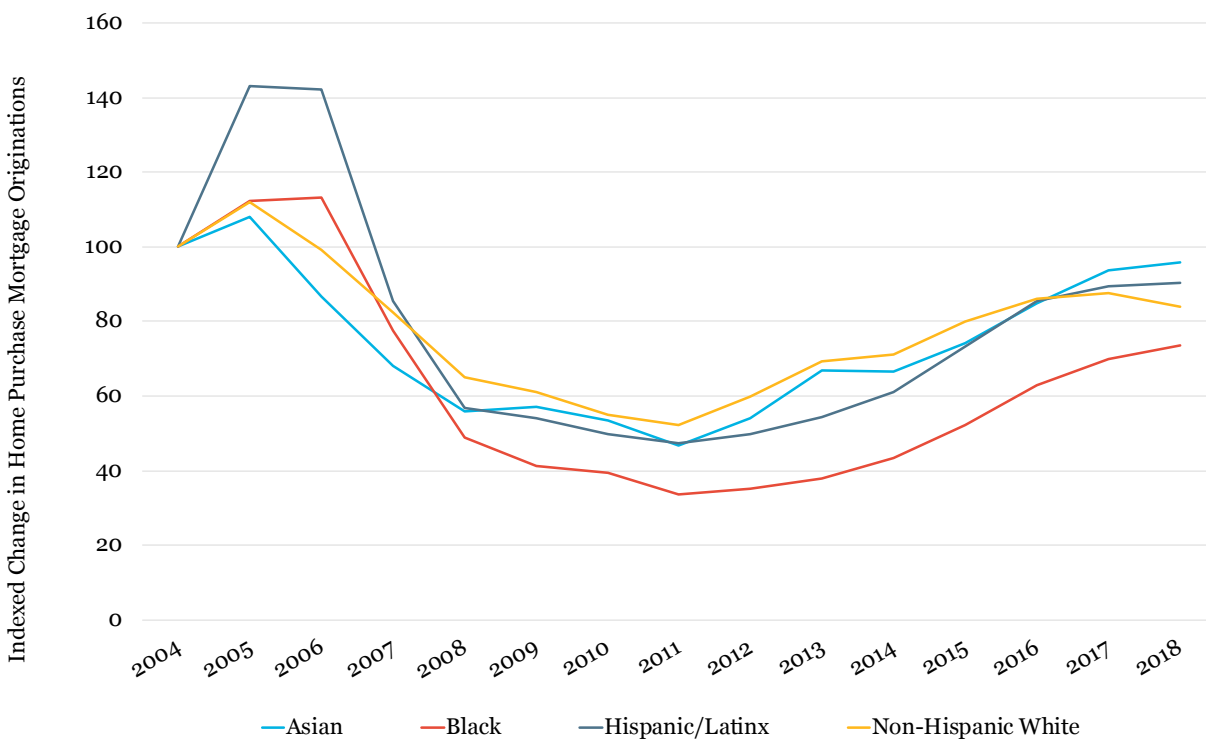
that were keeping delinquent borrowers from foreclosure: insufficient incomes to sustain their mortgages, as well as house values that had plummeted well below their purchase price. In addition, delegating authority to mortgage servicers led to considerable problems with both tracking and enforcement of relief efforts.⁴⁴ Stronger federal actions—such as making homeowner assistance programs mandatory or allowing borrowers to restructure their mortgages in bankruptcy—never gained political traction. While these limitations were true for the majority of borrowers in distress, the higher rates of unemployment among Black homeowners, coupled with greater declines in house values and higher rates of negative equity in Black communities,⁴⁵ meant that the support that was available often did not reach Black households.

Second, in the wake of the crisis, lenders greatly tightened their credit standards. Some tightening—and particularly more rigorous assessments of a borrower’s ability to repay their mortgage—was long overdue. But as housing markets softened, and as affordability increased, credit standards remained restricted so that only the highest credit quality borrowers were able to get a mortgage. Even FHA lending—which provided a critical backstop and counter-cyclical lending role post-crisis—increasingly shifted toward higher-credit borrowers. By 2010, nearly 74 percent of FHA loans went to prime or near-prime borrowers, compared to approximately 25 percent in 2000.⁴⁶ The Urban Institute estimated that between 2009 and 2013—a period that saw house prices recover in many markets—lenders made 4 million fewer loans than they would have made if credit standards had been what they were in 2000, a period of reasonable lending standards.⁴⁷

High credit score and down-payment standards translated into a recovery in which only the highest credit and highest wealth borrowers could buy homes.⁴⁸ Black households, who on average have lower credit scores and wealth because of historical structural barriers to accessing credit,⁴⁹ were thus disproportionately shut out of the homeownership market at the same time that home prices in many neighborhoods were at historic lows (Figure 7).

Third, the federal government failed to adequately address the uneven distribution of foreclosures across neighborhoods. The federal government sought to address the negative spillover effects through the Neighborhood Stabilization Program (NSP). NSP, initially authorized by the 2008 Housing and Economic Recovery Act (HERA), entailed three separate rounds, directing approximately \$7 billion towards the acquisition and redevelopment of foreclosed proper-

Figure 7: Changes in Home Purchase Originations by Race/Ethnicity, 2004 - 2018



Source: Author’s calculations of HMDA Data.

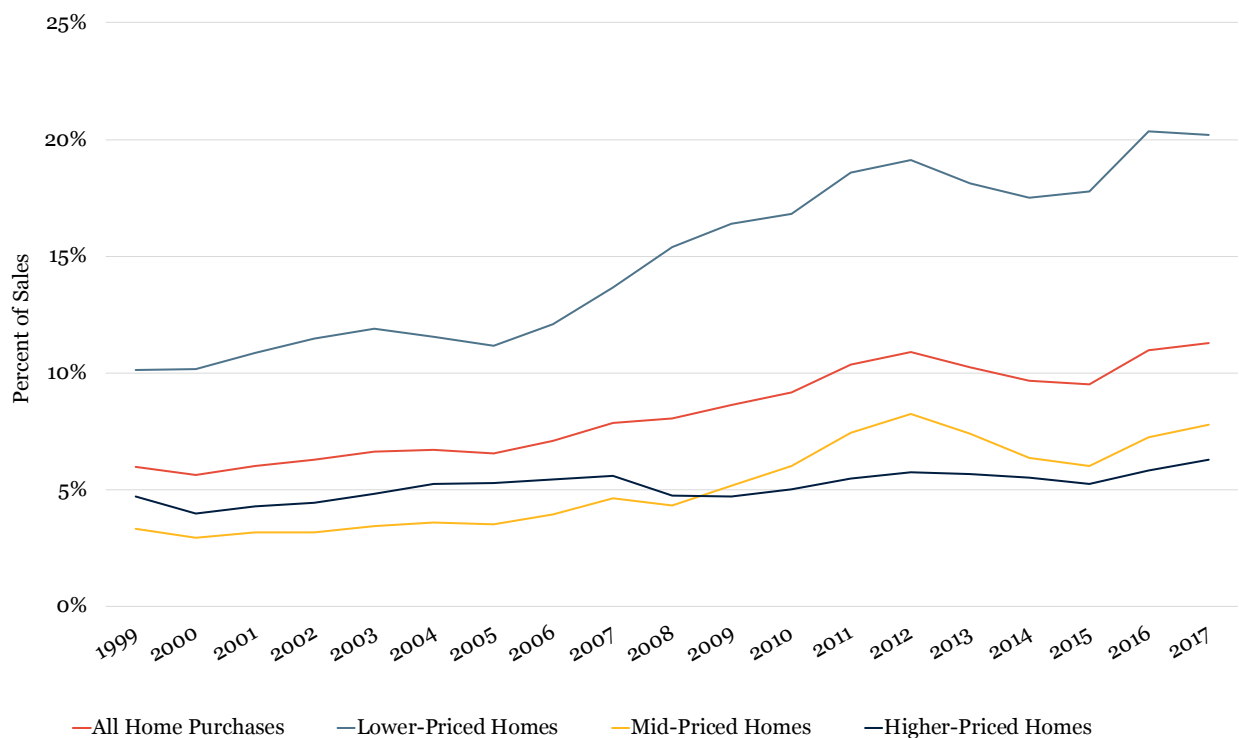
ties. NSP sparked significant innovation at the local level, with city governments and nonprofits collaborating on efforts to establish community land trusts, develop social enterprises, and build the capacity of the field to manage scattered-site affordable rentals.⁵⁰

However, the program faced significant challenges as well, including insufficient funding to match the scale of the crisis, as well as a government oversight structure that made it difficult for nonprofits to move as quickly as private companies to purchase properties.⁵¹ The quality and impact of NSP initiatives also varied greatly by state and locale, creating a headwind against equity across jurisdictions. The FHA's and GSE's bulk distressed asset sales further limited the ability of lower-income households and nonprofits to purchase more moderately-priced properties.⁵²

A broad set of investors stepped into the vacuum, purchasing foreclosed homes to convert them to rentals. As shown in Figure 8, until 2006, only between 5 and 8 percent of home purchases were made by investors. After 2006, however, investors made up an increasingly large share of the home purchase market. This included both small-scale investors (about 50 percent of the investor market), investors buying between 10 and 100 properties (30 percent) and large-scale investors (20 percent).

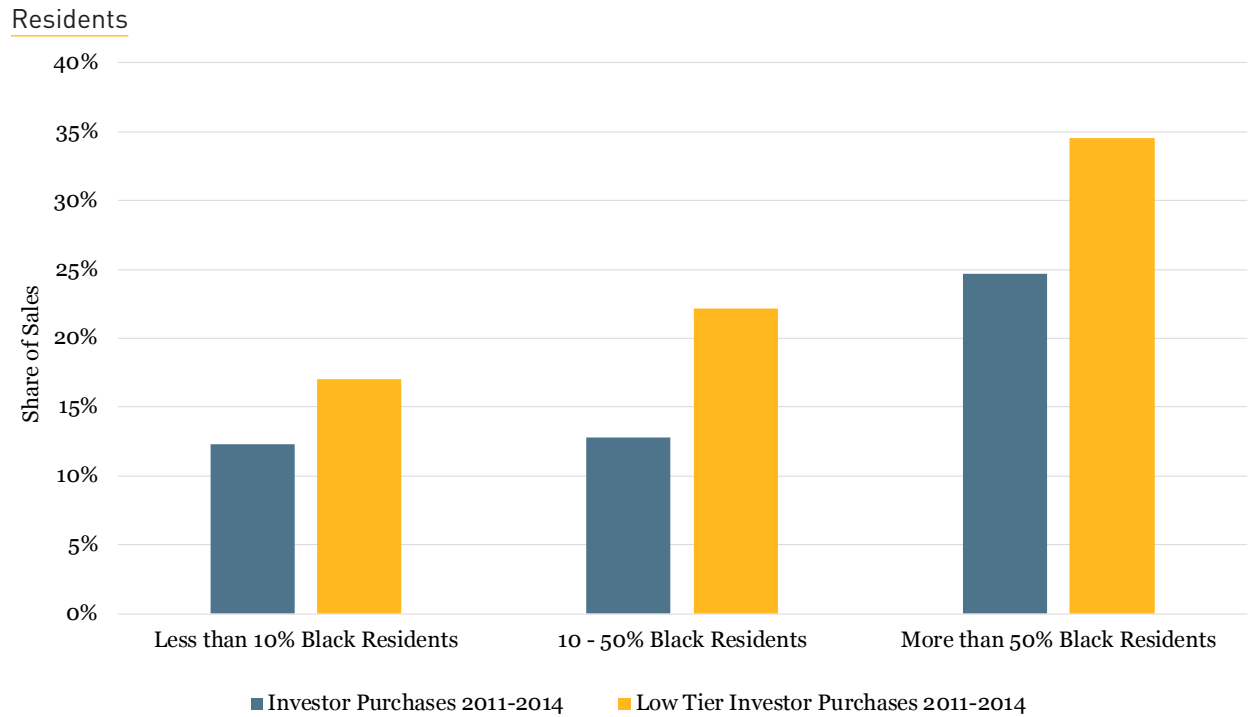
Investor purchases were more common among lower-priced properties and in neighborhoods with a higher percentage of Black residents, closing off the opportunity to buy lower-cost homes. Between 2011 and 2014, during the height of investor activity, nearly 1 in 4 home sales in majority Black neighborhoods went to investors, and more than 1 in 3 lower-priced homes did (Figure 9).

Figure 8: Share of Home Purchases by Investors, by Property Price Tier



Source: Author's analysis of CoreLogic⁵³ data.

Figure 9: Neighborhood Share of Home Purchases by Investors, by Property Price Tier and Percent Black



Source: Author's analysis of American Community Survey, 2018 5-year estimates and CoreLogic⁵⁴ data.

Note: Black refers to the percent of residents in a census tract who self-identify as Non-Hispanic Black, and does not include Hispanic Black residents or those indicating two or more races. Investor purchase data was converted from zip codes to tracts using the Missouri Census Data Center's Geocorr 2018 crosswalk.

The Implications for Black Homeownership

The confluence of these factors—higher unemployment rates, higher foreclosures, increased investor activity, and tightened credit—all intersected to undermine Black homeownership rates (Figure 1) and increase the racial wealth gap. Researchers at the Urban Institute estimate that even after controlling for differences in age and educational attainment, Black families lost a larger percentage of their wealth during the Great Recession than non-Hispanic White families (47.6 versus 26.2 percent).⁵⁵

Yet these aggregate losses mask the ways in which the recovery was also shaped not only by *who* could buy homes and benefit from the recovery in home values between 2012 and 2018, but also *where* those homes were located. The continued

failure of the U.S. government to address patterns of residential segregation and the potential for capital exploitation in Black neighborhoods led to an uneven recovery not only in Black homeownership and wealth, but also in which neighborhoods experienced continued disinvestment or intensified pressures around gentrification and displacement.

To demonstrate this, we clustered urban neighborhoods in the United States along two dimensions: the share of home purchase loans that were made to Black borrowers during the recovery period (2012-2018), as well as the change in the share of lending to Black borrowers before and after the crisis.⁵⁶ This clustering captures two dimensions of lending during the recovery: overall access to mortgage credit for Black borrowers, as well as how much the share of lending to Black borrowers changed over time. The purpose

of this clustering was to identify how access to credit—and specifically, loans for home purchase—shifted over the period of the recovery. The clustering process identified four different types of neighborhoods: those that had low levels of mortgage lending to Black neighborhoods both overall and during the recovery, those that saw declines in mortgage lending to Black borrowers, those that saw increases in mortgage lending to Black borrowers, and those that continually have the majority of loans made to Black borrowers.

The analysis highlights the continued racial segmentation of housing markets. Of the approximately 47,000 urban neighborhoods considered for this analysis (census tracts), more than 95 percent originated less than 4.2 percent of loans to Black borrowers. This represents a decline in lending to Black borrowers since 2004, but only slightly, emphasizing the challenges Black households face in accessing housing in a broad range of metropolitan neighborhoods. These neighborhoods are predominantly non-Hispanic White, and have higher incomes, higher house values, and higher levels of educational attainment than other neighborhoods, all of which work to further determine who has access to resources and privilege (Table 1).

In contrast, the clustering analysis also identified neighborhoods in which Black borrowers comprised a larger share of lending—over two-thirds of all purchase mortgages. Lending patterns in these neighborhoods did not change much over the course of the recovery either. Yet, in these neighborhoods, the long-term consequences of residential segregation manifest in lower household incomes, lower rates of educational

attainment, as well as lower house values. These characteristics also typified the neighborhoods in which the recovery period saw increases in lending to Black households, though these neighborhoods were more demographically diverse.

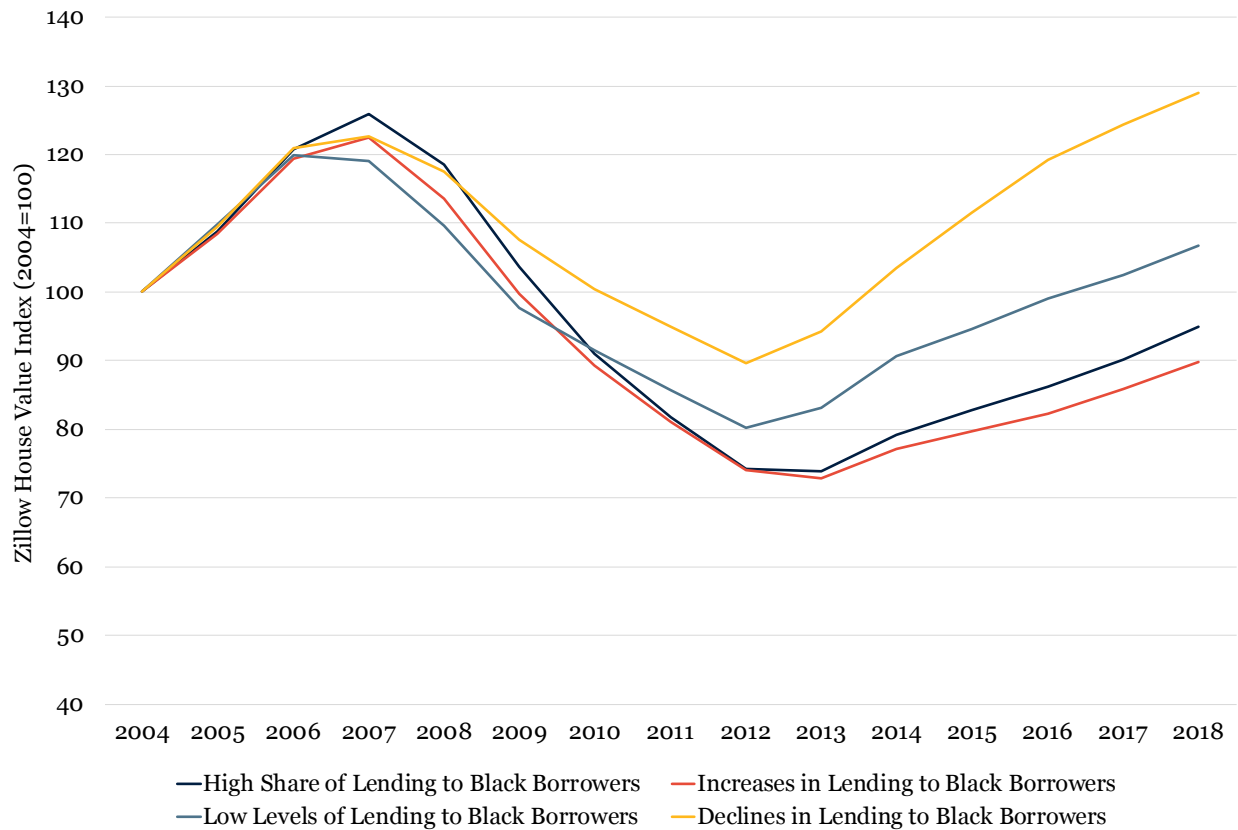
Of particular note, however, are neighborhoods that saw significant declines in their lending to Black households over the course of the recovery. Although they comprise a relatively small share of neighborhoods, these neighborhoods were places where the share of mortgage lending to Black households dropped to just 22.5 percent of all purchase originations during recovery. This, despite the fact that Black households made up approximately 50 percent of the population in these neighborhoods. These neighborhoods also saw higher rates of investor purchases in both 2009 and 2014, and a higher share of single-family homes being used as rental homes. These neighborhoods were also the ones that experienced the most dramatic price gains during the recovery (Figure 10), highlighting the interconnections between subprime lending, foreclosures, and the shifts in who benefitted from the recovery at the neighborhood scale. Neighborhoods that saw declines in mortgage lending to Black borrowers during the recovery saw an increase in average property values from \$210,000 at the bottom of the market to over \$300,000 in 2018, with these gains accruing disproportionately to investors and non-Black households. These neighborhoods were also more likely to be in cities experiencing gentrification pressures, including the San Francisco Bay Area, Los Angeles, Washington DC, Atlanta, and Nashville.

Table 1: Characteristics of Neighborhoods by Lending Clusters, 2019

	Low Levels of Lending to Black Borrowers	Declines in Mortgage Lending to Black Borrowers	Increases in Lending to Black Borrowers	High Share of Lending to Black Borrowers
Percent of Home Mortgage Purchase Loans, Black Households (2004)	5.1	57.0	32.9	71.5
Percent of Home Mortgage Purchase Loans, Black Households (2012-2018)	4.2	22.5	45.6	69.5
Neighborhood Socio-Economic Characteristics (2019)				
Percent Non-Hispanic White	66.5	29.4	31.8	15.1
Percent Asian	6.0	3.4	3.5	2.0
Percent Black	7.5	49.5	46.5	71.9
Percent Hispanic/Latinx	16.6	14.1	14.8	8.0
Percent with a BA or Higher	34.8	28.3	24.7	23.8
Unemployment Rate	4.8	7.0	6.7	8.3
Median Income	\$78,588	\$55,946	\$60,349	\$58,922
Housing Market				
Percent of Loans Seriously Delinquent (2013)	13.2	18.9	20.0	21.8
Percent of Subprime Originations (2004-2008)	24.7	39.1	36.1	39.6
Share of Investor Purchases (2009)	6.3	11.4	8.4	10.9
Share of Investor Purchases (2014)	12.9	18.9	16.5	18.2
Percent Single-Family Rentals (2019)	17.4	27.9	21.4	22.2
Median House Value (2019)	\$339,604	\$302,122	\$195,775	\$196,411
Number of Neighborhoods	44,622	275	890	1,259

Source: Author's analysis of American Community Survey and Home Mortgage Disclosure Act Data, 2004 – 2018. Analysis limited to census tracts with at least 100 home purchase loans between 2010 and 2018. Black share of loans calculated as a percent of loans with race data reported.

Figure 10: House Price Recovery, by Lending Clusters



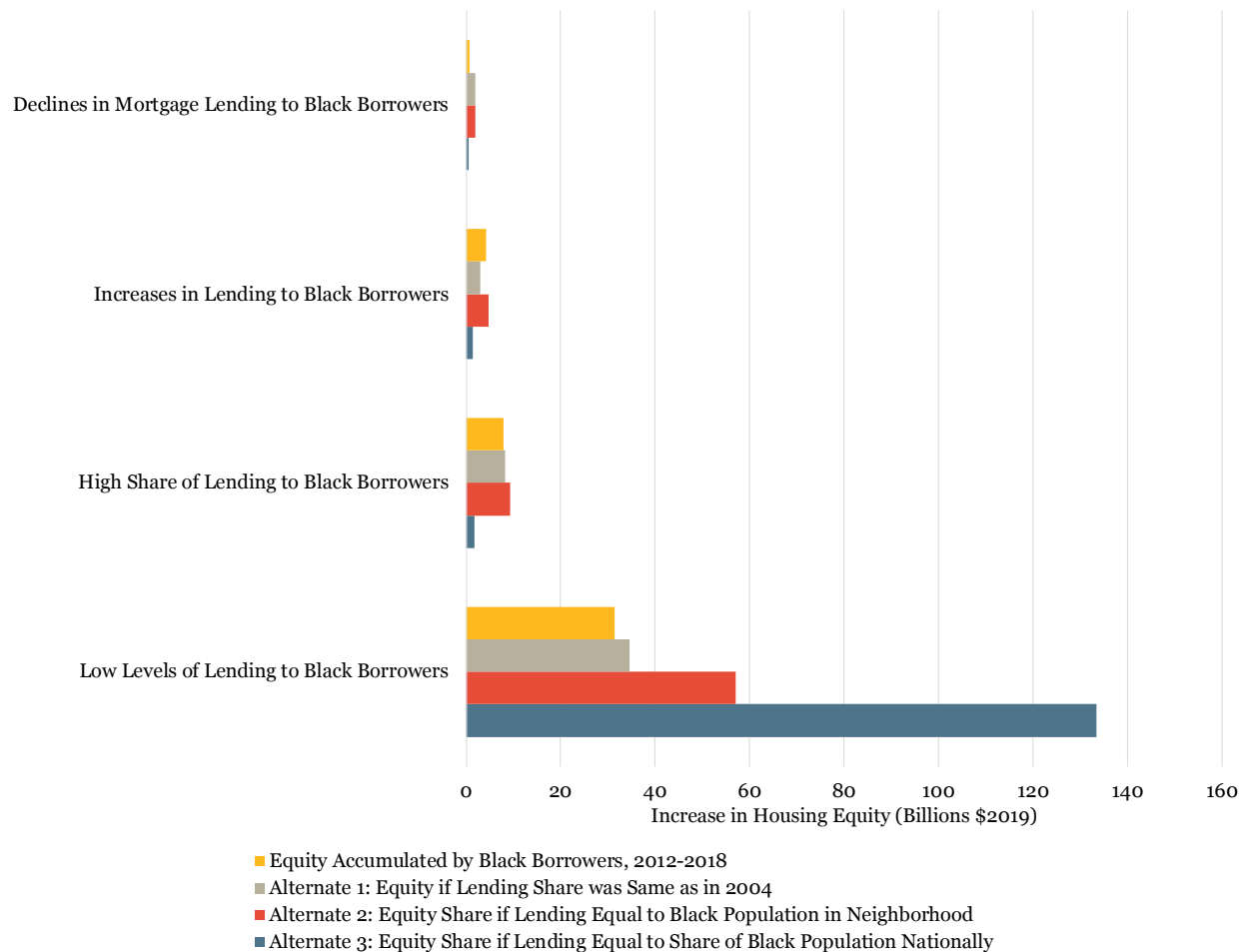
Source: Author's calculations of Zillow House Price Index, adjusted for inflation and normalized to 2004 values.

It is difficult to estimate the consequences of these trends on Black wealth, since the counterfactual is far from clear. But to illustrate the longstanding consequences of residential segregation and differential access to credit on wealth, we estimated the amount of equity that homeowners who bought their homes between 2012 and 2018 gained, based on the year they bought their home and the house price appreciation that occurred in their neighborhood through the end of 2018 (Figure 11). This vastly underestimates differences in wealth accumulation over this time period, since it does not account for those who already owned homes, or the equity accrued to those who purchased the property without a mortgage. Yet it

reveals the continued stark differences in access to credit and wealth building across neighborhoods.

Black households who were able to enter homeownership over this time period did build equity—an estimated \$44 billion. But had they received mortgages based on their share of the population (13.4 percent), they would have gained an additional \$93 billion in equity. Almost all of those gains would have come from increased access to neighborhoods with very low levels of lending to Black households (Figure 11). While largely illustrative, this analysis nevertheless demonstrates that in order to close the wealth gap, policies need to tackle both access to credit and racial exclusion.

Figure 11: Racial Disparities in Homebuyer Equity Accumulation, 2012-2018



Source: Author's calculations of HMDA and Zillow Data.

The COVID-19 Pandemic

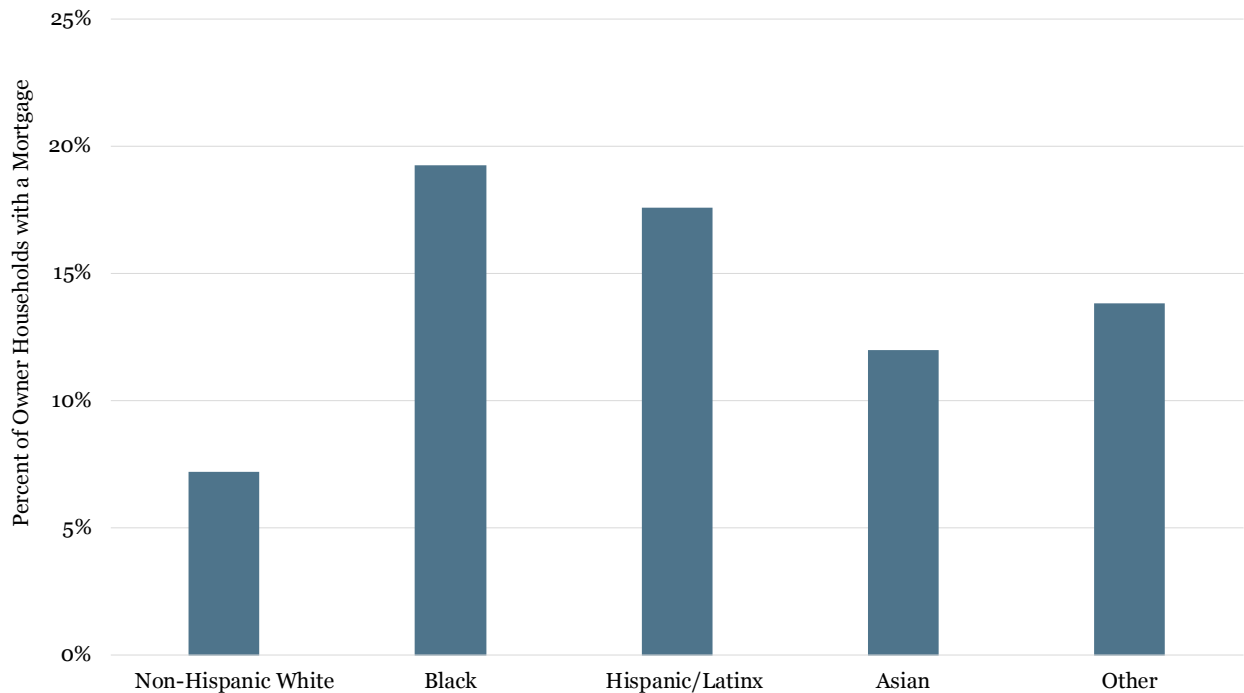
The COVID-19 pandemic and associated economic recession presents a new threat to the well-being of Black homeowners, and has the potential to further exacerbate these racial inequalities in wealth. Although the impacts of the pandemic have been widespread, Black workers face a double burden: they are more likely to be employed in the essential workforce and thus susceptible to the virus,⁵⁷ yet at the same time they are also more likely to have experienced a loss of income since March. Based on the Census Household Pulse Survey, 55 percent of Black adults have experienced a loss of income or

employment since March, compared to 43 percent of non-Hispanic White adults. There is also evidence that Black workers are more likely to have experienced permanent layoffs.⁵⁸

These disparities have increased housing insecurity for both Black renters and homeowners. Nearly one in five Black homeowners is behind on their mortgage payments, compared to less than 10 percent of non-Hispanic White households (Figure 12).

The systems that are in place to support homeowners in arrears are also likely to be less helpful for Black households, reinforcing the ways in which structural

Figure 12: Homeowners Behind on Mortgage Payments, by Race/Ethnicity, November/December 2020



Source: U.S. Census Household Pulse Survey, November 25-December 7, 2020.

disadvantage manifests in multiple ways. For example, Black households who applied for unemployment benefits were less likely to receive them than non-Hispanic White adults, and on average, their unemployment checks were lower (even for workers who earn the same salary) due to state differences in benefit coverage.⁵⁹ In addition, while homeowners with federally backed mortgages have some reprieve thanks to forbearance options, a Fannie Mae survey showed that half of homeowners do not know about forbearance options and that the knowledge gap is particularly acute for lower-income and minority homeowners.⁶⁰

The current market conditions suggest that we will not see the same wave of foreclosures as we did during the last recession, in part due to the fact that house prices have been largely stable and/or rising. This means that homeowners unable to make

their mortgage payments will be able to sell their homes rather than go into default. While certainly better than a foreclosure (for both the borrower and the broader housing market), this nevertheless raises significant racial equity concerns, particularly if Black homeowners are more likely to be forced to sell due to financial insecurity coming out of the pandemic.

All of this—coupled with research that shows that the severity and distress of a recession falls hardest on households of color—demands that the administration take both immediate and deliberate action to ensure a more equitable recovery out of this crisis than the last. This will require both short-term relief actions, as well as a more intentional set of policies for the recovery that recognize and address the structural inequalities that have produced and sustained racial inequalities in housing and credit markets.

Policy Implications

The election has ushered in a new administration, one that has the mandate and the responsibility to lead the country out of the COVID-19 pandemic and associated economic downturn. Those actions must be bold and focus on relief that is likely to have the greatest impact on lower-income and households of color. For example, expanding housing assistance for renters and ensuring that the crisis doesn't lead to widespread evictions and increased homelessness is fundamental to reducing racial inequality, given the high share of Black households who are renters. There also needs to be explicit policies focused on helping households facing accumulated rental or mortgage debt.

However, these emergency actions are insufficient to address the larger systemic inequalities that Black households face in the homeownership market, during the recovery period and beyond. For too long, housing policy has reinforced the legacy of redlining by focusing on the deficiencies of Black neighborhoods, rather than on the structures that produced them. The lessons from the last recession suggest that if policies are not explicitly focused on addressing the structural vulnerabilities facing Black households, the benefits of the recovery will largely accrue to higher-income households, furthering racial inequalities in the housing market. As Ta-Nahesi Coates argues in "The Case for Reparations," failing to address the roots of residential segregation merely sets up recurring opportunities for capital to extract wealth from Black communities. The data presented here show that these are not dynamics relegated to the past; the subprime crisis—coupled with the lack of federal attention to addressing the conditions for Black families and neighborhoods—contributed to a recovery

that disproportionately benefited those with capital, including investors and higher wealth households.

Undoing the legacy of housing and mortgage discrimination and redistributing the risks and rewards of homeownership will require a much stronger role for the federal government going forward. The lessons from past periods of crisis point to two, twin principles that can guide this agenda: first, develop policies that expand access to credit in meaningful and responsible ways to underserved borrowers and communities, and second, explicitly confront the systems that work to perpetuate residential segregation and that exclude or displace lower-income households of color from the neighborhoods they want to call home. These two need to be pursued in tandem, and supported by federal funding, attention to oversight and implementation, and consumer protection.

The first principle goes back to the long-term repercussions of redlining and the systemic denial of credit to Black households. At the heart of this challenge is the way in which the lending industry assesses and prices credit risk. Structural racism, both past and present, is baked into how the financial system evaluates a borrower's creditworthiness. Not surprisingly, researchers have found that Black borrowers have a significantly lower median FICO score (626) compared to non-Hispanic White borrowers (751). They are also more likely to have no credit score: an estimated 21 percent of the Black population has no credit score, compared to 12 percent of non-Hispanic White households.⁶¹ The rise of Fintech lending, as well as innovations in credit scoring algorithms and the use of big data, all have the potential to further embed racial differences in the assessment of risk.⁶²

Failing to confront these disparities means that the system will continue to produce unequal outcomes. Studies have consistently shown that Black borrowers are more likely to be denied a mortgage, receive a loan with a higher interest rate, and face greater constraints to refinancing to a lower cost product.⁶³ These inequalities translate into material differences in wealth: A recent paper estimates that mortgage discrimination costs Black and Hispanic/Latinx borrowers 7.9 basis points more in interest on their home mortgages. Although this difference may seem small, this “tax” adds up, costing an estimated \$765 million in extra interest per year.⁶⁴ Other researchers have estimated that the average interest rate for Black homeowners is 33 basis points higher than for non-Hispanic White homeowners, translating into an extra \$743 in mortgage interest costs a year.⁶⁵ More broadly, the impacts of how lenders evaluate and price risk go beyond homeownership, affecting wide-ranging sectors such as job and rental applications, as well as auto, life, and homeowners insurance.

The significance of credit scores for everyday life means that there needs to be much stronger oversight of risk assessment practices, and greater transparency into how credit scores are calculated and used. The Biden-Harris Administration should leverage the authority of the Consumer Financial Protection Bureau to ensure that algorithms used to predict credit risk include expanded data on consumer payments (e.g., utility payments), increase the transparency and quality of credit score calculations, and pursue disparate impact cases under the Equal Credit Opportunity Act and Fair Housing Act.

However, the Biden-Harris Administration should also seek to develop new programs in which the government explicitly helps lower-credit score and lower-wealth borrowers overcome the conditions created by historical discrimination. Down payment programs—while important in overcoming collateral constraints for some first-time homebuyers—aren’t sufficient on their own. Ultimately, reducing the Black/White homeownership gap will require more affirmative credit programs, and a meaningful intent to overcome the legacy of discrimination in housing and credit markets. The Community Reinvestment Act is an example of such an affirmative obligation, and should be modernized to increase its effectiveness at redressing racial inequalities.⁶⁶ The federal government has other tools at its disposal as well. For instance, the Equal Credit Opportunity Act includes a provision for Special Purpose Credit Programs (SPCPs) that would allow a targeted lending program on the basis of a protected class such as race or national origin without violating other federal antidiscrimination statutes, such as the Fair Housing Act.⁶⁷

GSE reform should also prioritize their public mission of providing increased credit access for affordable housing and homeownership. The GSEs have a long history of developing underwriting guidelines and products, making investments and developing partnerships that have safely expanded credit to underserved communities. Indeed, the GSE “Duty to Serve” principle is broader than fair lending, and involves taking affirmative steps to reach out to communities traditionally underserved by the housing finance market.⁶⁸ Duty to Serve obligations, coupled with public funds to subsidi-

dize mortgage programs for lower-income and lower-wealth households, could help to overcome the different “starting line” for Black households with limited assets or lower credit scores.

There are models to build on, that have demonstrated it is possible to expand access to credit and homeownership in responsible ways. For example, the Community Advantage Program, a joint effort of the Ford Foundation, Fannie Mae, and Self-Help Credit Union, used a \$50 million grant as a credit enhancement, which leveraged \$4.74 billion in financing for low-interest-rate mortgages to nearly 52,000 low-income homeowners across the country.⁶⁹ While the serious delinquency rate for these loans during the height of the foreclosure crisis was higher than that for prime loans (10 percent compared to 5 percent for prime fixed-rate loans), it was substantially lower than those for prime adjustable-rate loans, subprime fixed-rate loans, and subprime adjustable-rate loans, which exhibited serious delinquency rates of 18, 22, and 43 percent, respectively.⁷⁰ Given the growth and increased capacity of the community development finance industry, a new federal fund to provide credit enhancement capacity to expand this program and bring the number of assisted households to scale could be significant in mediating inequalities in access to credit and homeownership. Another potential remedy would be to look to the Veteran Administration’s underwriting practices, including their loan-to-value and residual

income requirements, to better assess and mitigate risk while extending credit to borrowers who don’t qualify for a conventional loan.⁷¹ While more work is needed to identify which products may be the most beneficial for Black and other lower-wealth, the FHA and/or the GSEs are in a unique position to analyze data and evaluate pilot programs to identify potential responsible, scalable models.

Policymakers also need to place greater emphasis on post-purchase intervention and support. There is increasing evidence that income volatility and risk among lower-income households is growing.⁷² Lower-income homeowners have a smaller financial cushion with which to withstand the impact of negative life events, such as unemployment or serious illness, or to meet unanticipated repair costs, and by virtue of their limited housing choices, they are more likely to buy houses in need of repair. Research has shown that access to savings to cover 2-3 months of mortgage payments leads to lower default rates than equity support through down payment assistance.⁷³ Structuring an insurance or savings program—for example, a “post-purchase” Individual Development Account that would set money aside for home improvements or shortfalls in mortgage payments funded in part by a share of the monthly loan payments—could help improve the sustainability of homeownership, especially for Black homeowners who may face greater precarity in the labor market.⁷⁴

Second, the Biden-Harris Administration needs to center neighborhoods and place-based policy-making as part of its racial equity strategy. The persistence of policies and practices that reinforce racial and ethnic segregation means that Black households continue to live in different neighborhoods than their non-Hispanic White counterparts. The Administration has already taken important steps in that direction, recommitting to the Affirmatively Furthering Fair Housing (AFFH) rule and the disparate impact standard.⁷⁵ Yet there is more to be done to tackle residential segregation, and the ways in which not only federal but also local zoning laws continue to shape patterns of exclusion. In California, recent legislation has reinforced the goals of AFFH, requiring that each city and county include an analysis and action plan to combat housing discrimination as part of its General Plan.⁷⁶ Requiring this of more jurisdictions, as well as expanding the capacity of jurisdictions to assess and address barriers to fair housing, could help to support more inclusive zoning practices which would allow for greater housing choices across metropolitan regions.⁷⁷

However, the framework for implementing fair housing also needs to account for the trends that are reshaping the geography of opportunity in many cities and metropolitan areas. Gentrification, displacement, and the suburbanization of poverty are creating new patterns of racial exclusion. In addition, scholars are increasingly pointing to the ways in which policies that seek to promote integration can reinforce the devaluation of Black neighborhoods.⁷⁸ What is needed are intentional efforts to both open up exclusionary neighborhoods (urban and suburban) as well as invest in community development and the preservation of affordable housing in lower-income neighborhoods. The focus

on mobility strategies alone obscures the important ties individuals have to place, and ignores the voices of Black residents and organizers who are making claims for the right to stay in their community.

A renewed role for the federal government in community development could help to address the longstanding harms of residential segregation by providing funding to increase investment in Black communities through localized strategies, rather than real estate speculation. Especially with the likely long-term repercussions of COVID-19 in lower-income and communities of color, the federal government could play a vital role in ensuring that mission-driven entities have access to funding and technical assistance to ensure that the recovery doesn't merely benefit those with access to liquid capital. For example, a governmental backstop or guarantee (e.g., through FHA or the GSEs) could be made available to mission-driven entities to purchase properties at risk of speculative flipping in exchange for long-term restrictions on rents.⁷⁹ Others have proposed the creation of a "Social Housing Development Authority," which could acquire distressed properties and then convey them to nonprofit housing organizations, tenant groups, or other mission-driven groups.⁸⁰

In addition, the federal government should support the expansion of community land trusts and cooperative ownership models, which to date have been limited in scale due to lack of funding and technical capacity. These models have the potential to build wealth and preserve affordability over the long-term. In cities across the country, community-led initiatives—often led by Black community members—have been developing and sustaining cooperative models of land ownership

and housing. In writing about one such effort in Minneapolis, Matthew Desmond noted that “Big structural change begins with small-scale models and grass-roots pressure from below... Home remedies don’t stay home for long. They do the double work of effectively easing suffering at the local level and providing a proof of concept for large-scale adoption.”⁸¹ The existing set of housing and community development programs and financing tools are insufficient to bring these models to scale. Investing in Black leadership and organizations—and allowing them to chart their own vision for housing, land, and ownership—could go a long way towards spurring a new generation of community development programs that shift away from market-based solutions and better support the goal of racial equity.⁸² Coupling these strategies with federal guidance on the use of community preference policies—which give priority to residents in the neighborhood for affordable rental or homeownership opportunities—could also help to stem displacement.⁸³ As legal scholars have argued, a locally responsive approach to evaluating community preferences is fully consistent with fair housing laws, which are designed to promote integration and equal opportunity, not to mandate a one-size-fits-all set of housing policies.⁸⁴

Finally, inequalities in homeownership and its financial benefits are related to a much broader system of disparities linked to race and ethnicity, including tax policy,⁸⁵ labor market vulnerability, social service provision, and education. Non-Hispanic White households who benefited from the expansion of homeownership in the post-war era had the benefits of a labor and social insurance system that ensured relative job and income stability over time,⁸⁶ as well as a tax system that helped

to redistribute the benefits of economic growth more broadly across income groups.⁸⁷ Reductions in social welfare programs, labor market shifts, and an increasingly regressive tax policy have all contributed to growing inequalities in income and wealth.⁸⁸ Given the significance of these broader forces in shaping not only access to homeownership but also its sustainability and returns, policies to mediate underlying inequalities not only in housing markets but also across other social and economic domains are critical to closing the racial wealth gap.

Conclusion

The challenges confronting the Biden-Harris Administration are numerous and pressing. There is a need to act swiftly to stem the worst impacts of the COVID-19 pandemic on both human health and economic well-being. But the findings presented in this paper suggest that how the administration chooses to address the crisis—and the degree it foregrounds racial equity as a principle for action and intervention—will have significant implications for Black households and communities, as well as for other structurally marginalized populations. The current political and economic moment—in which we are confronting a global pandemic, the threat of climate change, and the urgency of the Black Lives Matter movement—must be leveraged to transform the structures that continue to cement and exacerbate racial inequalities in housing and other sectors. While undoing the legacy of racial discrimination will not be easy, Ta-Nehisi Coates may have said it best when he wrote, “as surely as the creation of the wealth gap required the cooperation of every aspect of the society, bridging it will require the same.”

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