BALLARD BRIEF

May 2023

The Homeownership Gap between Black and White Families in the United States

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Summary

The black and white homeownership gap in the United States is the difference in the percentage of black and white households that own homes. In 2020, the homeownership rate for black households was 43.4% while the homeownership rate for white households was 72.1%.[1] The housing gap developed due to discriminatory housing practices such as redlining and the subprime crisis. As a result, black households faced high barriers to homeownership and were unable to transfer the benefits of homeownership to future generations. While white households entered homeownership and provided assets for themselves and their posterity, black households fell further behind. The homeownership gap contributes to the larger black and white wealth gap. Wealth and financial security are important for higher education, financial crises, investments, and other situations that provide stability and opportunities. Several programs across the United States provide down payment assistance to homebuyers, which helps black households overcome one of the largest barriers to homeownership.

Key Terms

Annualized Rate of Return—An annualized rate of return is the yearly change (increase or decrease) in an investment.[2]

Appreciate—A home appreciates when its value increases over time. If the home is appreciated when the home is sold, it will earn money on the home.[3]

Debt-to-income ratio—The debt-to-income ratio is calculated by dividing a household's monthly debt payments by their monthly income and is used by lenders to determine risk in the mortgage application process.[4] The ratio explains what percent of monthly income is spent on making debt payments. Lenders typically require housing expenses and long-term debt to be equal to or less than 33% of income so that households can realistically make monthly debt payments.[5] If a household has a 33% debt-to-income ratio, then they are spending a third of all their monthly income on debt payments.

Delinquent Mortgage—A mortgage becomes delinquent when a homeowner is late on a mortgage payment. After 30-60 days, foreclosure proceedings begin and the borrower could lose their home or be charged late fees.[6]

Extremely low-income renters—People are considered extremely low-income renters when they live below the poverty line or when their income is 30% of the local median income.[7]

Home Equity—Home equity is the share of the home that the homeowner owns compared to what they owe on their mortgage. For example, a home worth $300,000 with a mortgage balance of $150,000 would result in home equity of $150,000.[8] Home equity is positive when the value of the home exceeds any mortgage debt from the household.[9] Positive home equity is important for wealth accumulation.[10]

Household Wealth—A household's wealth is the total value of its assets minus liabilities. Assets are the value of funds and the property the household possesses and liabilities are debts.[11]

Liquid Assets—Liquid assets, such as bonds, stocks, and mutual funds, are assets that can be quickly and easily contributed into cash for economic emergencies without losing money.[12, 13]

Predatory Loans—Predatory loans are deceptive loans that the lender uses to take advantage of the borrower.[14] Predatory loans include loans with excessive fees, processes that reduce equity, loans with financial penalties, and loans where part of the information is withheld.[15]

Prime Loans—Prime loans are high-quality loans that are offered to lenders with high credit scores. Prime loans are associated with low default risk and low-interest rates.[16]

Subprime Loans—High-risk loans extended to people with low income and poor credit. To justify the risk of granting mortgage loans to people with low income and poor credit, lenders exchange a risky loan for a higher interest rate and greater profit.[17]

Transgenerational (Intergenerational) Wealth— Transgenerational and intergenerational transfers of wealth happen when parents pass down wealth to their children.[18]

Context

Q: What is the homeownership gap and how does it affect different races?

A: The homeownership gap in the United States is the difference in homeownership rates between black and white households. The homeownership rate includes the total number of households both entering and exiting homeownership.[19] The homeownership rate for black households in 2020 was 43.4%.[20] In comparison, the homeownership rates for white, Asian, and Hispanic households were 72.1%, 61.7%, and 51.1%, respectively.[21] The homeownership rates indicate that black homeownership in the United States is lower than any other racial category and almost 30 percentage points lower than white homeownership. The homeownership gap has grown since 1960, from 27 percentage points in 1960 to 30 percentage points in 2019.[22] The lack of black homeownership also causes a disproportionate amount of the black population to rent.[23] While black households only account for 12% of the population, black households comprise 19% of all renters and 26% of extremely low-income renters.[24]

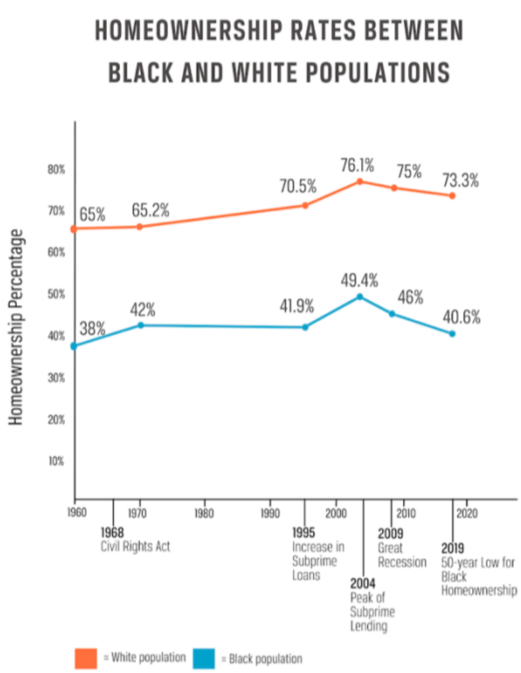
Q: When did the gap in homeownership develop?

A: Although the homeownership gap has existed throughout United States history, events in the past century have greatly affected homeownership rates.[25] In 1900, the homeownership rate for white households was 48.1% and the homeownership rate for black households was 20.5%.[26] During the Great Depression, the US government attempted to stimulate the economy through home subsidization.[27] The

Federal Housing Administration (FHA) subsidized mass-produced home divisions, but these divisions were prohibited to people of color.[28] Further, the Home Owner's Loan Corporation (HOLC) divided neighborhoods based on neighborhood qualities such as age and condition of the housing, access to transportation, access to parks, economic class and employment status of the residents, and the racial and ethnic composition of the residents.[29] Lenders used these qualities to determine the risk associated with granting loans in different areas.[30] This process came to be known as redlining, which created long-term disinvestment in neighborhoods with high populations of people of color because their neighborhoods were deemed risky and unfit for investment.[31] This process continued through the 1960s.

Another practice that helped white homeownership while excluding black households was the GI Bill. Following World War II, the GI Bill provided veterans with home and business loans.[32] While the GI Bill helped the white middle class grow, the majority of black veterans were denied the benefits of the GI Bill because of racist housing and employment policies.[33, 34] Throughout the Great Depression and post-World War II era, the government denied subsidies to black households, while helping white households become homeowners.

In 1968, the United States government passed the Civil Rights Act, making it illegal to discriminate on the premise of color. However, there was little subsequent progress in black homeownership.[35] The white homeownership rate in 1960 was 65% and the black homeownership rate in 1960 was 38%.[36] By 1995, the black homeownership rate was 41.9%, which demonstrates only small amounts of growth from the Civil Rights Act.[37] In 35 years, black homeownership only grew 4 percentage points. However, black homeownership grew substantially through the turn of the century and peaked in 2004 at 49.4%.[38] While this sharp increase in homeownership seemed promising, it reflected the large number of predatory loans offered to black households preceding the Great Recession in 2007.[39] As a result, many black households were forced to exit homeownership during the Great Recession to the point of homeownership rates falling to 46% by the end of the Recession in 2009.[40] Black homeownership rates continued to fall through the 2010s, as credit restrictions on loans became very strict in response to the housing crash.[41] The homeownership rate for black households reached a 50-year-low of 40.6% in 2019.[42, 43] The 2019 rate indicates that black homeownership rates have not recovered from the Great Recession or the discriminatory practices preceding the Civil Rights Act.[44, 45]



Q: Where in the United States is the homeownership gap most prevalent?

A: While the homeownership gap applies to the United States holistically, there is a difference in rates across regions.[46] For example, black households have higher homeownership rates in cities with more new construction and lower homeownership rates in cities with higher levels of segregation.[47] When studied geographically, black homeownership rates are higher in the Southern and Eastern United States, and lower in the West (California) and North (New York, Minnesota, and Wisconsin).[48] The gap between black and white homeownership also varies across regions. The smallest homeownership gap of 15 percentage points is in Charleston, South Carolina.[49] The largest gap of 51 percentage points is in Minneapolis-St. Paul, Minnesota.[50] The difference in rates between South Carolina and Minnesota reflect the variety in the homeownership gap across regions of the United States.[51] Most of the data on the homeownership gap is collected from cities with a black population of 40,000 or more to easily compare black and white populations, so there is not as much data for rural homeownership rates.[52]

Q: What is the value gap?

A: The value gap is the difference in value and appreciation of black-owned homes. Black homeowners do not enjoy homeownership benefits to the same degree that white home owners do because black homeowners typically live in homes that are valued for less and appreciate at slower rates.[53, 54] Residential segregation is a strong indicator of lower median home values in black neighborhoods.[55] For example, the median home price in majority-black neighborhoods was $184,000, while the median home price in majority-white neighborhoods was $341,000.[56] However, the median does not account for differences in income. When comparing the median price of homes among low-income neighborhoods, homes in white neighborhoods increased in value by $48,774 more than in black neighborhoods between 2000 and 2016.[57, 58] Although this comparison does not account for other variables that affect home prices, it indicates the disparity in appreciation in similar income neighborhoods. Therefore, black homeowners do not reach the same level of return as white homeowners due to differences in appreciation.[59] Further, after accounting for neighborhood and housing qualities, each square foot of residential real estate was worth 23% less in neighborhoods where over half the population was black.[60] Neighborhood qualities include walkability, educational quality, and exposure to toxins; housing qualities include size and age of homes. The causes for the gap in value and appreciation in primarily black neighborhoods can be traced to lower demand for housing in primarily black neighborhoods, lack of resources, lower quality schools, and poorer access to well-paying jobs.[61] If homes in black neighborhoods were valued in the same way as homes in white neighborhoods, it is estimated that black households would have an average of $48,000 higher value per home.[62] Thus, the gap in home value is important to the overall homeownership gap because the benefits of homeownership for black households are not as pronounced as those for white households.

Contributing Factors

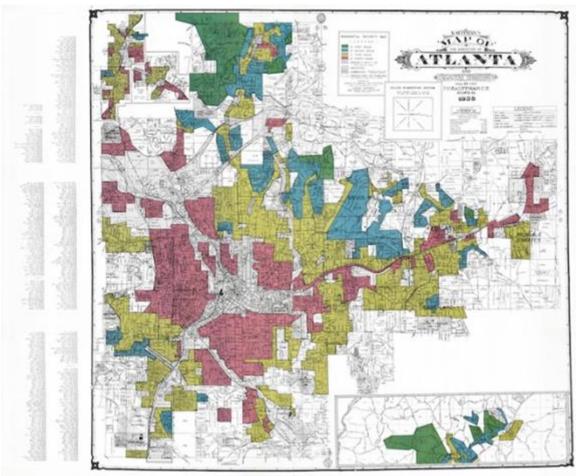
Discrimination

Redlining

The process of redlining created long-term disinvestment in primarily black neighborhoods, which contributed to the homeownership gap.[63, 64] The process of redlining began following the Great Depression when the HOLC and the FHA performed neighborhood appraisals to determine the risk of investing in different areas.[65] After evaluating a neighborhood based on qualities such as the condition of the homes and the economic status of the residents, the neighborhoods were assigned a rank of A–D, with D being the riskiest.[66] D-rated neighborhoods were marked on maps with a red border, hence the term redlining.[67] Lenders used these ranks to decide if they would give loans to borrowers within the neighborhoods, so risky neighborhoods received less investment money. Twenty-first-century researchers have proved that HOLC grades used to race and immigrant status as a factor in determining neighborhood ratings after controlling for differences in home values and conditions across neighborhoods.[68] Loan denial resulted in segregation, disinvestment, and racial inequality in homeownership as people of color could not receive loans to invest in homeownership.[69]

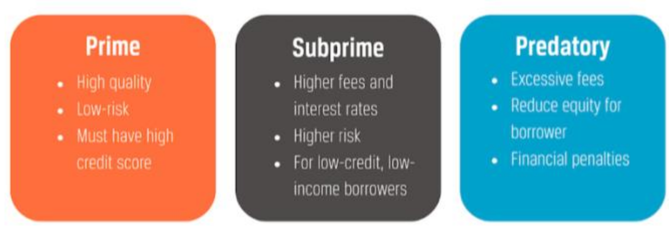
Historically redlined areas have lower rates of homeownership today even though the Fair Housing Act of 1968 ended the practice of redlining.[70, 71] Homeownership rates in A-rated neighborhoods are now above 80%, but homeownership rates in D-rated neighborhoods are below 50%, a gap of over 30 percentage points.[72] Some research suggests that the gap may be as wide as 33.5 percentage points lower in C-rated neighborhoods than A-rated neighborhoods, and 39.3 percentage points lower in D-rated neighborhoods.[73] Although all low-income neighborhoods typically have lower homeownership rates (11.4 percentage points lower than high-income neighborhoods), in C and D-rated neighborhoods, the homeownership rate is 30–40 percentage points lower than A-rated neighborhoods.[74] That is a difference of 3 times lower homeownership rates in C and D-rated neighborhoods than the average low-income neighborhood.[75] The difference in homeownership rates that align with historical redlining boundaries demonstrate that redlining continues to contribute to the homeownership gap.[76]

Further, redlining disproportionately affects minority households, because racial segregation is still prominent along former redlining borders.[77] Segregation causes minorities to disproportionately experience the negative consequences of redlining, such as lower homeownership rates, higher vacancy rates, and lower home values.[78] This segregation is evident from the fact that in historically A-rated neighborhoods, the minority population comprises just over 10%, but the minority population in historically D-rated neighborhoods is almost 80%.[79] While some of this difference can be attributed to differences in income, the minority population concentration is still 35.8 percentage points higher in D-rated neighborhoods than in A-rated neighborhoods after adjusting for income differences.[80] These data indicate that historically redlined neighborhoods have not only lower homeownership rates but also higher rates of minority residents today.[81]



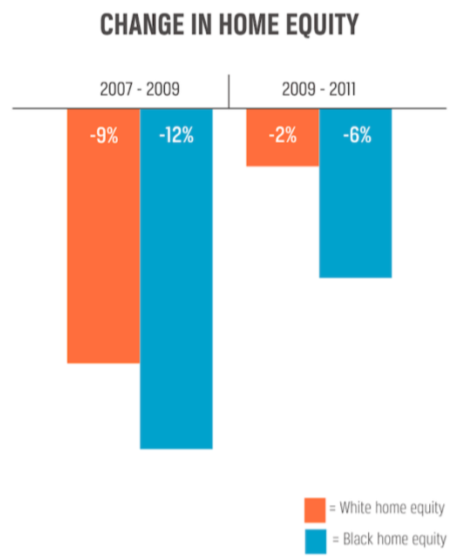
Subprime Loans

People of color were 2.8 times more likely than white borrowers to receive high-rate subprime loans between 2004–2008, which damaged their home equity and increased the homeownership gap.[82] Subprime loans are those extended to low-income borrowers with poor credit in exchange for higher fees and interest rates.[83] People who receive subprime loans typically do not qualify for prime loans, which are high-quality, low-risk loans that are offered to lenders with high credit scores.[84, 85] Therefore, subprime loans allow many low-income and low-credit borrowers to enter homeownership.[86] However, subprime loans are also more risky for the borrower and more subject to predatory lending. The practice of subprime lending grew during the 1990s and early 2000s from 5% to 20% of total mortgage loans between 1994 and 2006.[87] Not only was there 4 times the number of subprime loans, but 60% of the people who received a subprime loan in 2006 should have qualified for a prime loan.[88] The high number of people receiving subprime loans who qualified for prime loans indicates the predatory nature of subprime lending, as lenders purposefully pushed subprime loans even on borrowers who qualified for prime loans.



Due to high levels of residential segregation from 1994–2006, the majority of low-income black neighborhoods were easy markets for lenders to target for subprime loans.[89] Lenders targeted black neighborhoods that had historically experienced a lack of access to mortgages.[90] As a result of racial targeting, black borrowers were 2.8 times more likely than white borrowers to receive subprime loans during 2004–2008.[91] There was also a difference in the subprime loans that white and black borrowers received. For subprime loans in 2005 with 30-year adjustable-rate mortgages, black households had interest rates 12 points higher than subprime loans received by white households.[92] Further, prior to the Great Recession, almost half of the loans in minority areas were predatory, while only 22% of the loans in white areas were predatory.[93] Therefore, black borrowers were almost 2.5 times more likely to receive a predatory loan than white borrowers.[94] Racial economic differences (like credit scores and income) may have accounted for part of the reason that minority borrowers were targeted for subprime loans. However, researchers find that racial disparities in subprime loans were highest for borrowers with high credit scores, indicating that black borrowers of all economic backgrounds were targeted for subprime loans.[95] Further, even after comparing households with similar neighborhood characteristics, credit scores, and other economic variables, black borrowers were offered more subprime loans than white borrowers.[96]

Half of all mortgage loans secured by black households in the 1990s were subprime loans.[97] This increase in subprime loans explains why many black households were able to become homeowners and homeownership grew from 41.9% to 49.4% between 1995–2004.[98] While subprime loans allowed for this intense growth period, it was not sustainable and the increase did not last. Eventually, subprime loans led to higher foreclosure rates and loss of home equity during the Great Recession which led to a net decrease in black homeownership.[99, 100] To illustrate this point, the black foreclosure rate was almost twice as high as the white foreclosure rate during the Great Recession, at 11% and 6%, respectively.[101] The difference between delinquent mortgages for white and black households was even greater. While 1 in 10 black homeowners had a delinquent mortgage in 2009, 1 in 25 white homeowners had a delinquent mortgage.[102] As a result of high delinquency and foreclosure rates, black homeowners lost more home equity.[103] Between 2007 and 2009, white home equity declined by 9% and black home equity declined by 12%.[104] Following the Great Recession, the gap continued to grow. White households recovered from the housing market crash more quickly than black households, as the decline in home equity from 2009–2011 was 2% for white households but 6% for black households.[105] As previously stated, the homeownership rate for black households reached a 50-year low at 40.9% in 2019, lower than the 41.9% rate of 1995, indicating that black homeownership rates have not recovered from the Great Recession.[106, 107, 108]



Financial Barriers

Difficulty Receiving Loans

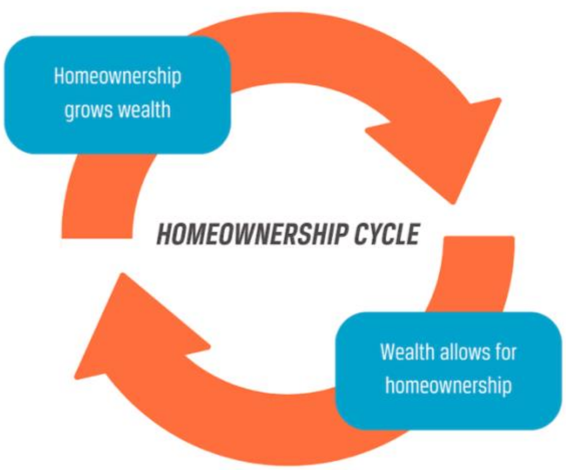
The high mortgage denial rate for black households contributes to the homeownership gap because many black households cannot receive loans to finance homeownership. The black denial rate for homeownership is twice as high as the white denial rate, at 24% and 12%, respectively.[109] Differences in credit scores are one reason why the black mortgage denial rate is higher. A borrower's credit profile is a strong predictor of acceptance for a mortgage.[110] However, the average credit score for black households is significantly lower than the average credit score for white households.[111] The nationwide average white credit score is 727 while the average black credit score is 627 (the threshold for a credit score to be considered "good" is 670).[112, 113] This disparity is significant because lenders are more inclined to approve loans to borrowers with high credit scores.[114] Further, more black low-credit borrowers apply for loans; 64% of black applicants are low-credit profile borrowers, versus 42% of white applicants.[115] Thus, more black borrowers are denied mortgage loans because over half of black applicants have low credit scores. The mortgage denial gap shrinks when comparing only low-credit borrowers, indicating that low credit scores account for a large portion of black households' mortgage denials. For black low-credit borrowers, the denial rate is 49%, and for white low-credit borrowers the denial rate is 41%.[116]

Many factors (such as payment history and type of loans) affect credit scores.[117] However, black credit scores are also affected by factors related to housing. For example, black households are more likely to be renters, but paying rent and utility bills does not increase credit and can instead damage credit scores.[118] Delinquent mortgage and foreclosure information can stay on a credit report for up to 7 years and make it more difficult for individuals to receive a mortgage loan.[119] As previously explained, due to discriminatory lending processes, black homeowners faced higher rates of delinquency and foreclosure.[120] High rates of delinquency and foreclosures caused lower credit scores for black borrowers.[121]

Household income is also considered when approving mortgage loans.[122] There is a substantial income gap between black and white households that affects the homeownership gap.[123] In 2017, the median income was $61,363 for white households and $38,183 for black households, meaning the average white household earned 1.5 times more income than the average black household.[124] Further, 33.3% of black households have incomes below $25,000, compared to 17.7% of white households.[125] Thus, the percentage of black low-income households is almost twice as large as the percentage of white low-income households. Income is important to homeownership because low-income households may struggle to save for a down payment. Income is also used to calculate a debt-to-income ratio, which lenders evaluate to determine the risk of a loan.[126] Between 2021 and 2022, more than 40% of black mortgage denials were due to high debt-to-income ratios. Conversely, less than 35% of white mortgage denials were due to high debt-to-income ratios, indicating that black households are disproportionately affected by high debt-to-income ratios.[127]

Transgenerational Wealth

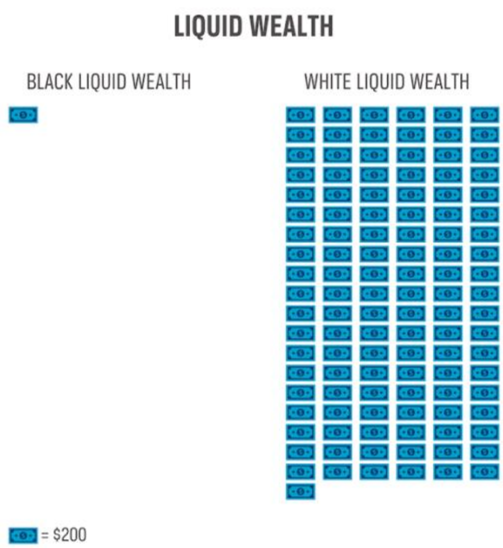
A Lack of transgenerational wealth contributes to the homeownership gap because lack of homeownership and wealth create a cycle, and therefore black households are unable to draw on family wealth when purchasing a home.[128] Without homeownership, it is more difficult for a family to grow their wealth substantially, but without wealth, households cannot help future generations afford a home. So, when multiple generations are unable to achieve homeownership, the homeownership gap grows. However, lack of transgenerational wealth is especially prevalent among black households, who faced years of discriminatory barriers to wealth and homeownership. Today, there is a difference of $153,400 in median wealth between white families and black families. Further, 51.4% of white young adults' parents have wealth over $200,000, while only 10.4% of black young adults' parents' wealth exceeds $200,000.[129] When parents have wealth of at least $200,000, their children are significantly more likely to be homeowners.[130] When comparing transgenerational wealth, white households receive an inheritance from their parents 9% of the time, as opposed to 3% of the time for black families.[131] The median inheritances for white families are over $15,000, and for black families less than $3,000.[132]



It is estimated that differences in parental wealth and whether or not parents own a home can explain 12–13% of the homeownership gap between black and white young adults.[133] White homebuyers are also more likely to receive financial assistance from their family. White homebuyers receive down payment assistance from family 46% of the time, while black homebuyers receive down payment assistance from family 10% of the time.[134] Intergenerational transfers of wealth for other costs also help with homeownership. People are 15% more likely to buy a home if they receive $5,000 or more from their parents to help with homeownership costs or indirect costs (such as rent or higher education).[135] By helping with indirect costs, individuals can save more money for homeownership.[136]

Lack of Liquid Assets

The gap in liquid assets is another contributing factor to the homeownership gap because black households do not have liquid assets for down payments or financial crises. Liquid assets are assets that can be quickly and easily converted into cash for economic emergencies. Liquid assets include savings accounts, certificates of deposit, and retirement accounts.[137, 138] In 2011, the median liquid wealth for black households was $200, while the median liquid wealth for white households was $23,000, meaning white families have 115 times more liquid wealth than black families.[139] The differences in median wealth highlight the extent to which the black population lacks liquid assets.



Black household's lack of liquid assets makes it difficult to maintain homeownership.[140] Households without liquid assets are more likely to use home equity to weather financial crises, such as the death of a family member, divorce, or unemployment.[141] Using home equity for financial crises increases the chances of foreclosure, as households use home value to finance expenses but risk not being able to provide adequate payments.[142] Black households with similar credit scores, loan characteristics, demographics, and homes are 3 percentage points more likely to enter foreclosure than white homeowners and 2.04 times more likely to exit homeownership.[143, 144] However, exit rates are not statistically significant after controlling for liquid wealth, indicating that lack of liquid wealth may be a principal cause of homeownership exit.[145]

Consequences

Wealth Gap

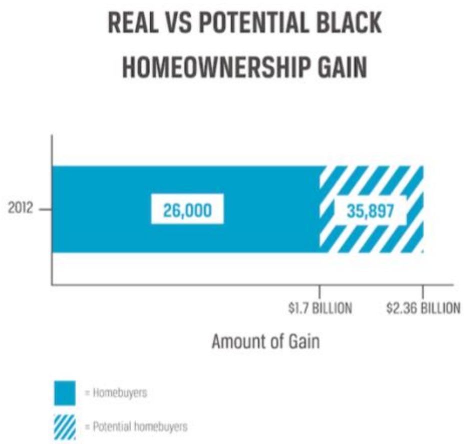
The gap in homeownership contributes to the broader wealth gap between the black and white population in the United States because the principal asset for most American households is home equity.[146] In 2019, the median wealth of black households in the United States was $24,100 while the median wealth for white households was $189,100.[147] In other words, the typical white family has almost 8 times more wealth than the typical black family.[148] Wealth is important because of the financial security and financial buffer it provides against economic crises.[149] Wealth also permits families to invest in education, grow their assets, and move to neighborhoods with more opportunities.[150] Further, homeownership is especially important for black wealth as home equity accounts for 53–71% of the average black household's wealth, and 39–51% of the average white household's wealth.[151, 152]

Homeownership impacts the wealth gap because homeownership allows families to grow wealth over long periods of times and across generations. Wealth is built by generational transfers of resources, including homes.[153] However, generations of black households did not own homes due to discriminatory practices, which exacerbates the wealth gap today.[154] If black homeownership rates were the same as white homeownership rates (without changing home values of black and white households), median black wealth would increase by $32,113 per household. Further, the wealth gap between white and black Americans would decrease by 31%.[155] If homeownership returns for black homeowners were the same as white homeownership returns (meaning black households would make the same amount of money off of home investment as white households), median black wealth would increase by another $17,113 per household, and the wealth gap would also shrink another 16%.[156] The large impact that the homeownership and home value gap have on the wealth gap illustrates the importance of homeownership's relationship to wealth.[157]

Lost Homeownership Financial Benefits

The homeownership gap causes many black households to forgo the financial benefits associated with owning a home because black households are more likely to be renters. Home values appreciate over time, which makes homeownership a valuable asset. Between 1975 and 2012, there was a 26% increase in overall home values, which only benefited homeowners.[158] In a strong housing market, a home's value will grow by 22% in 5 years.[159] Therefore, homeownership is an effective savings strategy due to the high-interest rates.[160] Homeownership is referred to as "forced savings" because homeowners must make an initial down payment and then mortgage payments each month.[161] The mortgage payments are redeemed when the house is sold.[162] On the other hand, renters make a monthly payment to a landlord and do not redeem their investment nor the appreciation it earns. For example, after comparing holding periods of 3 years for renters and homeowners, homeownership is estimated to yield $10,196 more in asset growth than renting over similar time periods.[163]

The returns to homeownership for black households in 2012–2017 reflect the benefits of homeownership vs. renting due to appreciation. In 2012, there were 26,000 black homebuyers.[164] The 5-year gains for those 26,000 black homebuyers amounted to over $1.7 billion, or $65,000 average gains per buyer.[165] If 2.5 percentage points of more black households had entered homeownership in 2012, changing the number of black homebuyers from 26,093 to 35,897, the total real gain would have been $2.36 billion in 2017.[166] That is over a half a billion increase that black households did not receive due to low rates of homeownership. To clarify, returns during 2012–2017 were lucrative because the housing market in 2012 was low because of the Great Recession.[167] Therefore, appreciation was high during these years. However, homeownership benefits of forced savings, appreciation, and high returns exceed renting benefits almost every year and for holding periods greater than 2 years.[168, 169]



Homeownership is also more profitable than other forms of investment. Homeownership provides more returns than renting a home and investing an equal down payment in other assets.[170] The median rate of return for resellers is greater than the rate of return on the stock market or other forms of investment such as bonds.[171] For example, homeowners who kept their homes for the 14-year period of 2002–2016 had an annualized rate of return of 10%, which is higher than the return on the S&P 500, which hovered around 4–7% for that same time period.[172, 173] Consequently, renters do not receive the same financial benefits of homeownership that homeowners do, as the returns to homeownership are higher than other investments. While homeowners redeem interest on monthly payments upon resale, renters do not receive these returns and instead lose money on monthly payments.

Lower Educational Quality and Achievement

Children who grow up in households with parents as homeowners enjoy educational benefits that are less accessible to non-homeowners. Homeownership affects education because educational quality corresponds to the quality of schools that neighborhoods are zoned to attend. Near low-scoring schools, the number of rented homes is 30 percentage points higher than in neighborhoods near high-scoring schools.[174] This data supports the idea that there is greater access to educational opportunities in neighborhoods with high rates of homeownership.[175] Further, children age 5–8 who grow up in families that own homes have higher math and reading scores on tests.[176] The educational success of children whose families own homes could reflect the benefits of many factors associated with homeownership, such as having greater levels of wealth, living in higher-quality neighborhoods, and less financial stress in the family.[177] However, while the exact reasons why homeownership positively affects educational quality are not known, there is a strong correlation between the two.[178]

Homeownership is also associated with higher education attainment. The college graduation rate for children whose parents own homes is 19% higher than for renters.[179] Home equity is especially important for low-income families' higher education attainment.[180] Only a third of low-income students attend a 4-year college, but growth in home equity is related to higher levels of college attendance.[181, 182] A $10,000 increase in home equity leads to 13.8% more college attendance for low-income families. Having home equity provides homeowners with stability and the ability to invest in higher education, as some households may use their home equity to pay for higher education.[183, 184] Households without home equity may find it more difficult to finance higher education, thus limiting opportunities for their prosperity. In turn, lower educational attainment creates more disadvantages for the black population in the United States.

Practice

Down Payment Assistance Programs

Down payment assistance is one of the best options for increasing black homeownership and decreasing the homeownership gap.[185] Sixty-eight percent of renters say that saving enough money for a down payment is their biggest hurdle when buying a home.[186] This problem disproportionately affects black households who have less liquid assets and transgenerational wealth. Down payment assistance allows first-generation homeowners to overcome a lack of transgenerational wealth and enter homeownership.[187] Down payment assistance can be a low-interest, interest-free loan, or a grant.[188] There are currently over 2,000 active down payment assistance programs across the United States and over 1,000 government and non-profit agencies offering down payment assistance.[189]

NeighborhoodLIFT is one program that has extended across the United States. NeighborhoodLIFT has helped 20,000 households become homeowners between 2012 and 2020.[190] The program is funded by Wells Fargo Bank, while funds and homeowner education are administered by NeighborWorks America.[191] In the NeighborhoodLIFT program, applicants are required to take 8 hours of counseling or classes to become educated in homeownership.[192] The NeighborhoodLIFT program then offers a $15,000–17,500 grant to qualifying households.[193] By teaching homebuyers about homeownership and providing grants, NeighborhoodLIFT helps many households enter homeownership. The NeighborhoodLIFT program is interested in decreasing the homeownership gap as well. The program offered $7 million to the Minneapolis and St. Paul region, which has the highest homeownership gap in the United States.[194] This donation helped 426 households become homeowners.[195]

Impact

Although there is a lack of research on the impact of down payment assistance programs on the homeownership gap, there are estimates about how down payment assistance programs affect black homebuyers. For example, over 1.7 million black renters who meet other mortgage requirements (such as credit score and income) could afford a median-priced home in the 31 most-populous areas of the United States if they could afford a 10% down payment.[196] However, even small amounts of assistance can help a household enter homeownership. In a simulation of homeownership activity, researchers found that $1,000 in assistance would allow 700,000 low-income households to buy a home.[197] This number is 19% higher than if households had received no assistance. Further, $5,000 more in assistance would increase the fraction of homeownership by 15%.[198] Thus, even small amounts of down payment assistance have the potential to increase homeownership.

Gaps

While down payment assistance provides many opportunities to black homebuyers, it also includes many obstacles. One challenge is the difference in types of down payment assistance. Down payment assistance offerings are not standard and therefore range in eligibility requirements and type of assistance (loan or grant).[199] A potential homeowner may be overwhelmed by choosing the right type of down payment assistance. Other potential homeowners are not aware that they can receive assistance.[200] Further, the benefits of down payment assistance programs are not referred to potential homebuyers by lenders.[201] A combination of complex programs and a lack of information makes it difficult for the average household to access down payment assistance. Notorious studies from the HUD (United States Department of Housing and Urban Development) in the early 2000s also found that down payment assistance led to higher rates of default and poor mortgage performance, indicating that households who could not save for a down payment were not able to maintain homeownership.[202] When HUD conducted its study, many down payment assistance programs used predatory loans that were soon after discontinued, which may have resulted in higher rates of foreclosure.[203] Recent studies have proved that down payment assistance does not negatively affect mortgage performance.[204] However, there may be lingering beliefs that down payment assistance leads to higher foreclosure rates.

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