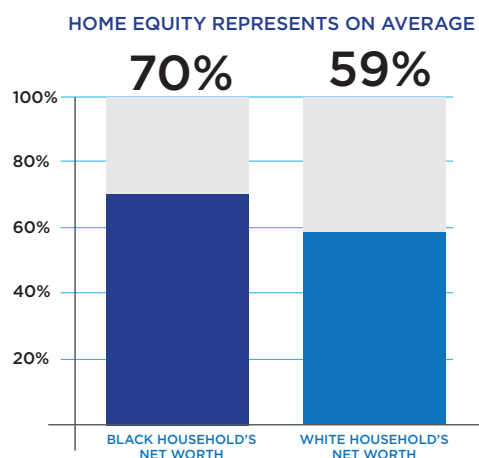


# Executive Summary\*

## HOUSING MARKET PERFORMANCE

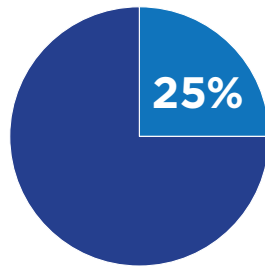
### Wealth and Homeownership

- ▶ The typical White family holds eight times the amount of wealth held by the typical Black family, according to the 2019 Survey of Consumer Finances. That disparity translates into an estimated \$24,100 for Black households compared to a median net worth of \$188,200 for White families. This pattern of substantial racial wealth disparity has changed little since 2016.
- ▶ Homeownership constitutes the largest component of median household wealth and intergenerational wealth transfer in the United States.
- ▶ For Blacks, home equity represents on average 70 percent of a Black household's net worth, compared with 59 percent among White households.
- ▶ The homeownership gap is larger than it was more than 80 years ago when the Federal Housing Administration was established in 1934. The Black rate of homeownership remains lower than its historic high in 2004.
- ▶ According to the U.S. Census, as of the second quarter of 2021, the Black homeownership rate was 44.6 percent compared to 74.2 percent for Whites. That's down from the recent high achieved in the second quarter of 2020, but up significantly from the half-century low of 40.6 percent measured in the second quarter of 2019.
- ▶ In 2020, the Black homeownership rate was 45.3 percent. This rate is substantially above the second quarter 2019 rate of 40.6 percent, which was less than the Black homeownership during the year of the passage of the 1968 Fair Housing Act.



- ▶ Recent optimistic official statistics, such as those that indicate a surge in Black homeownership during the pandemic, should be taken with caution. It is not clear, based on available data, if the sudden increase in Black homeownership is due to a statistical anomaly or factors such as financial gains, policy outcomes, demographic shifts, or greater access to mortgage credit.
- ▶ In spite of an apparent increase in homeownership among Blacks in 2020, the gap in homeownership rates between Blacks and Whites is still a staggering 30 percentage points.

\*All statistics and research findings highlighted in this Executive Summary are fully cited and documented in the full text and footnotes below. This report covers purchase mortgages only; refinancings are not included in the data reported below. A methodology section is included in the Appendix that details how the HMDA data was tabulated for the preparation of this report.



- ▶ Several metropolitan areas with growing Black populations, feature homeownership rates that are well below the national average of 45.3%. In Minneapolis, for example, only 25 percent of Black families own their home.

### Loan Applications and Originations by Race and Ethnicity

- ▶ For the first time since the Great Recession and foreclosure crisis, in 2020 the total number of home mortgage applications and originations surpassed the number of applications registered in 2004, which was the highest year of Black homeownership on record.
- ▶ Even though originations to Black applicants have increased by 9 percentage points since 2004, the increase in originations to Blacks remains much lower than the increase in originations to Whites (12 percent), Latinos (60 percent) and Asians (25 percent).
- ▶ The share of total loan originations to Black applicants remains unchanged since 2004 (7 percent) and is two percentage points smaller than the share registered in 2006.
- ▶ Between 2019 and 2020, applications from Blacks rose by 16 percentage points, while total originations for that same period increased by 14 percentage points.
- ▶ Only 19 percent of loan originations to Black borrowers were purchased by the GSEs compared with 40 percent of those to Whites borrowers.
- ▶ Most Black borrowers (61 percent) rely on nonconventional loans, particularly FHA-insured loans.
- ▶ The proportion of FHA-insured loans received by Black borrowers is much larger than that

of Whites (41 percent versus 15 percent respectively). These disparities exist at all income levels.

- ▶ White applicants decreased from 2.9 million in 2004 to 1.4 million in 2010 before steadily increasing to 3.1 million in 2020.
- ▶ Seventy-three percent of applications from Whites in 2020 were for conventional loans, up from 66 percent in 2019, but still a lower percentage than in 2004, when 89 percent of loan applications coming from White applicants were for conventional loans.
- ▶ In 2020, 43 percent of Black applicants had incomes at or below 80 percent of the local AMI, up from 41 percent in 2019. In contrast, only 31 percent of White applicants had incomes at or below the local AMI, a 4-percentage point increase from 2019.
- ▶ Conversely, 45 percent of White applicants had high incomes (i.e., more than 120 percent of AMI), while only just 27 percent of Black applicants fell into this income bracket.
- ▶ In 2020, 13 percent of Black loan recipients received high-cost loans, nearly three times the rate for White applicants—only 5 percent.

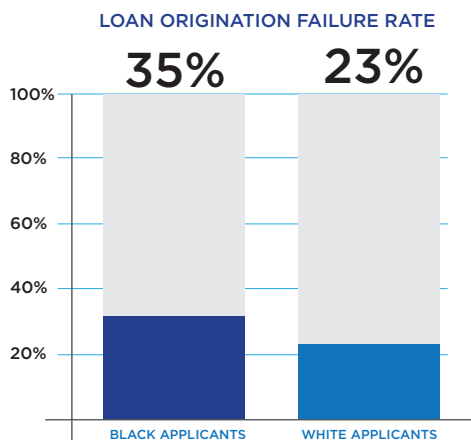
### Loan Denial Rates

- ▶ In 2020, Black applicants experienced higher loan denial rates than Whites, although denial rates continued to drop since their peak in 2007, when they had reached 32 percent.
- ▶ For Black applicants, conventional and nonconventional combined, denial rates for home-purchase loans were more than double those of White applicants—16 percent versus 7 percent—virtually unchanged from 2019.
- ▶ Debt-to-income ratios represents the most common reason for denial for both Black (35 percent) and White applicants (30 percent).

- ▶ Credit history represents the second most prevalent reason for denials among both Black applicants (25 percent) and White applicants (19 percent)

### Loan Origination Failure Rate

- ▶ The Loan Origination Failure Rate compares loan applications with loans that did not progress to originations because one of the following reasons:
  - The loan application was approved by the lender but not accepted by the applicant,
  - The loan application was either withdrawn or the file was closed for incompleteness; or
  - The loan application was denied.
- ▶ Black applicants experienced a loan origination failure rate of 35 percent, compared to a White applicant rate of 23 percent.



- ▶ The principal value of the Loan Failure Rate for 2020 is that it shows that all of the reduction in loan denials to Blacks since 2015 has been more than offset by an increase in loan application withdrawals or files closed.
- ▶ The disproportionately larger number of applications that were approved, but not accepted by the applicant and those that were withdrawn or closed for incompleteness among Black applicants, relative to Whites applicants, calls for further investigation.

### Loan and Lender Channels by Race and Ethnicity

- ▶ Forty-two percent of Black borrowers applied for an FHA-insured loan, a rate that is more than twice that for White applicants (15 percent). Conversely, only 40 percent of Black applicants sought conventional financing in 2020, a much lower rate than that of White applicants (71 percent).
- ▶ Most applicants, Blacks and Whites, applied for a loan at an independent mortgage company (66 percent of Black applicants and 56 percent of White applicants).
- ▶ In 2020, although origination rates were higher at independent mortgage companies than at banks for both racial groups, the rates of loan origination were several percentage points higher for White applicants (78 percent at mortgage companies and 75 percent at banks) than for Black applicants (66 percent at mortgage companies and 62 percent at banks).
- ▶ Origination rates across all lenders to Whites remained constant between 2019 and 2020; Blacks experienced a decline in origination rates across all lenders.
- ▶ Denials for Blacks and Whites across all lender types and income categories for 2020 were virtually the same as in 2019, with an exception for Black applicants applying for loans at affiliated mortgage companies; in those instances, the denial rate increased from 14 percent to 17 percent.

### Loan Type, Geographic Patterns and Race

- ▶ Origination rates for both racial groups were higher in census tract with a small presence of Black population than were originations by all racial groups in majority Black neighborhoods. Origination rates among White applicants were higher than among Black applicants regardless of applicant income level and census tract racial composition, except for high-income

White applicants applying for loans in majority Black census tracts.

- ▶ High-income Black applicants, relative to low-income Black applicants, experienced higher origination rates in census tracts with a small Black population. In contrast, in majority Black neighborhoods, origination rates are higher for low-income Black applicants than for those with high incomes.
- ▶ In 2020, 29 percent of loans originated to Black applicants financed properties located in low- and moderate-income neighborhoods, which is twice the rate for White borrowers at 14 percent

### Cities with Largest Black Populations and High Levels of Segregation

- ▶ In the 10 cities with the largest Black populations, all 10 are highly segregated as measured by the dissimilarity index, with the least segregated being Detroit (60 percent) and the most segregated being Chicago (81 percent).
- ▶ In all 10 cities, the share of both all applications and all loan originations to Black applicants is well below the share of Black population, indicating a persisting disadvantage in access to mortgages among Blacks.
- ▶ In Detroit, for instance, Blacks represent 78 percent of the city's population. Black applicants, however, represent only 50 percent of all mortgage applicants, and only 48 percent of loan recipients. In New York, Blacks represent 24 percent of the city's population, but only 9 percent of loan recipients.

### Mortgage Lending to Black Female Applicants

- ▶ In 2020, 41 percent of Black mortgage applicants consisted of single women (i.e., without a co-applicant).



- ▶ In 2020, 184 thousand applications from female Black prospective borrowers (without a co-applicant) represented a 23 percentage point increase over 2019. The share of applications coming from this group has continually increased since 2017, in contrast with the share of applications coming from single male Black applicants and joint-male and female Black applicants applying jointly.
- ▶ In 2020, the total number of applications from female Black prospective homeowners applying alone remained much smaller than at its peak of over 312 thousand reached in 2005.
- ▶ In contrast, women (applying without a co-applicant) represent only 22 percent of all White applicants, a percentage that has remained stable since 2004.
- ▶ In 2020, 42 percent of applications coming from single Black female applicants were for conventional loans, compared with 72 percent of applications submitted by single White applicants.



- ▶ Conversely, in 2020, 46 percent of applications coming from single Black female prospective borrowers were for FHA-insured loans, compared to only 19 percent among their White counterparts.
- ▶ In 2020, 65 percent of applications coming from single female Black applicants resulted in a loan origination, compared with 56 percent in 2004.
- ▶ In 2020, 77 percent of loan applications coming from single White female prospective borrowers were originated.
- ▶ Both among Black and White applicants, male and female applicants applying jointly have higher origination rates than applicants applying alone. The percentage of originated loans among Black male and female applicants applying jointly is 68 percent versus 78 percent among their White counterparts.
- ▶ The debt-to-income ratio is the most reported reason for loan denial among single female applicants, followed by credit history and collateral.
- ▶ The loan origination failure rate is also higher among single Black female applicants than among their White counterparts. In 2020, 20

percent of applications submitted by Black single female applicants were withdrawn or were reported as closed for incompleteness compared with 15 percent of applications among White applicants.

- ▶ Fourteen percent of all Black female borrowers received high-cost loans in 2020, compared with only 5 percent of their White counterparts.

### **Black Millennials Homeownership**

- ▶ Black millennials contributed to more than 2 percentage points of the increase in homeownership among all Black homeowners during the first three quarters of 2020.
- ▶ A November 2020 report from the National Association of Realtors indicates that 5 percent of Americans who purchased homes during the first months of the pandemic were Black, contributing to an increase in the Black homeownership.
- ▶ This surge is largely attributed to the greater buying power that millennials have compared to other generations, reflecting a greater ability to save and invest, especially among middle-class Black millennials, who have higher incomes and more stable employment.

- ▶ The surge in Black millennial homebuying has been further supported by low interest rates, reduced personal spending, and the ability to work remotely, which may have contributed to savings (from a reduction in commuting expenses) and facilitated relocation out of high-cost cities to more affordable suburban areas or to areas where owning a home is cheaper than renting.
- ▶ Student loan debt likely represents one of these challenges, as it can limit the amount of savings that can be used for a down payment. In the general population, Black households are more than twice as likely to have student loan debt than their White counterparts.
- ▶ There has been a 33 percentage point increase in applications from Black millennials between 2018 and 2020, compared to a 14 percent point increase among White millennials.
- ▶ Even though the share of applications among Blacks coming from millennials has increased—from 29 percent in 2018 to 32 percent in 2020—the share of Black millennials as a share of Black applicants remains far below the share of White millennials as a share of White applicants; in 2020, millennials represented 41 percent of the White applicant pool.
- ▶ Origination rates are higher among Black and White millennials relative to older households.
- ▶ The origination rate is 79 percent among White millennials; it is much lower for Black millennials (67 percent). Applications from Black millennials are more than twice as likely to be denied as applications from White millennials (15 percent versus 6 percent).
- ▶ The substantially lower application/origination rates for Black millennials relative to White millennials means that Blacks, on average, continue to become homeowners later in life than White homeowners. That gap in first-time ownership age between Blacks and

Whites translate into fewer years for Blacks to accumulate housing equity.

- ▶ Debt-to-income ratio is reported as the main reason for denial for over 35 percent of Black millennial applicants compared with 28 percent of White millennial applicants. Credit history is the second most common reason for denial.
- ▶ In 2020, 23 percent of denied applications coming from Black millennials were rejected because of credit history, compared with 18 percent among White millennial applicants.
- ▶ According to a 2019 New America report, about half of millennials between the ages of 21 and 29 who have a credit record and live in a community of color have a subprime score, which makes them vulnerable to high-cost predatory lending.

## THE ECONOMY, COVID-19, AND BLACK HOMEOWNERSHIP



### Labor Market

- ▶ In April 2020, 20.7 million jobs were dropped from American payrolls. The biggest one month decline ever and more jobs lost than comparing the peak job loss suffered in the Great Recession.
- ▶ Gross Domestic Product—the value of all goods and services produced—suffered its sharpest two quarter decline in history.



- ▶ Congress acted quickly to devise a broad set of measures to stabilize the economy. The CARES Act and the American Recovery Plan virtually flooded households with liquidity and provided programs to accommodate major debt—mortgages, rents and student loans. Supplemental Nutrition Assistance Program (SNAP) benefits were expanded to add further help.
- ▶ Blacks were significantly more likely than whites to become Covid-infected.
- ▶ Black workers were less likely than white workers to be working from home in the early months of the pandemic and therefore more likely to be exposed to Covid.
- ▶ Black workers also suffered higher levels of unemployment, including those with more

education, even compared to less educated whites. Until this past June, Blacks with associate degrees had higher unemployment rates than whites who had failed to finish high school.

- ▶ At its worst, the Black unemployment rate spiked to 16.7 percent in April 2020.
- ▶ Not only was Black unemployment the highest of all race ethnicities, nearly 45 percent of Black unemployed workers were classified as long-term unemployed (unemployed 27 weeks or more).
- ▶ A lasting impact of the labor market slide is that the graduating classes of 2020 and 2021 are likely to suffer permanent income losses.
- ▶ Because of provisions in the CARES Act, the Department of Education reports that 23 million Direct Loan borrowers holding \$935 million in outstanding debt are in forbearance, preventing any Direct Loan borrowers from entering default in the second quarter of 2021.

### Blacks and Housing

- ▶ Of those who had mortgages in January 2020, 5.5 percent were past due in October 2020, much higher than the 1.1 percent over that period in 2019. But 12.3 percent of Black borrowers were past due in 2020 compared to 4.3 percent for Whites.
- ▶ Blacks were about equally likely to enter mortgage forbearance as other households that missed mortgage payments.
- ▶ Among Black households that rent, almost one in four, reported in the most recent data, June 2021, that they were not current on their rent.
- ▶ The American Rescue Plan, provided \$46 billion to state and local government to help those families, while they were also protected by the extension of the Centers for Disease

Control moratorium on evictions. Yet, through July 2021, states had only managed to administer \$4.8 billion of the available funds.

### **Black Small Businesses**

- ▶ Financial support provided by the CARES Act and American Rescue Program kept Black household consumption steady, in the aggregate, and greatly helped the cash balance of Black businesses that sold to them.
- ▶ The initial attempt of offering a Payroll Protection Program loan, to directly protect small businesses and their labor force, was uneven. The Treasury Department funneled the loans through banks, which quickly favored their own customers and those customers with deep relations over other businesses.
- ▶ So few Black firms got funding initially that Congress went back and created a second batch of funding directed to address the disparity. In the first round of the firms reporting their race, Black firms received 1.6 percent of loans, though they are 10 percent of firms.
- ▶ Compared to White firms on the basis of their employment size, HUBZone/non-HUBZone location and rural/urban status, Black firms received loans that were on average \$38,000 less than White firms. Things were better in the second round, with closer to 10 percent of the firms being Black, and the loan gap was smaller at \$11,550.
- ▶ When commercial banks failed to reach low-income neighborhoods and minority-owned firms, the Federal Reserve ran a special project through the Minneapolis Federal Reserve Bank to increase liquidity for CDFIs to improve access.
- ▶ The wave of loans in January and February under the American Rescue Plan did not show

a significant improvement among the firms that did report race. Black firms were only 1.6 percent of firms that got loans. But, again, only 22.4 percent of all firms reported their race.

- ▶ As is true of Black households, Black businesses have significantly less liquid wealth than White business owners. This makes Black firms highly fragile and less resilient during economic downturns. Keeping Black consumption up during this pandemic went a long way to keeping Black businesses afloat, given their difficulty in getting money aimed at small business liquidity challenges.
- ▶ Black consumption is falling as those federal emergency stimulus payments wind down, and it is unlikely to rebound for several quarters until the Black labor market has regained its pre-pandemic levels.

### **Student Loan Debt**

- ▶ Student loan debt continues to mount and is now estimated to be \$1.7 trillion.
- ▶ Excessive student loan debt is a disproportionate problem for young Black adults.
- ▶ Black college graduates have an average of \$52,000 in student loan debt and owe an average of \$25,000 more than White college graduates, according to data from the National Center for Education Statistics. Four years after graduation, almost half of Black borrowers owe 12.5 percent more than what they borrowed due to interest, while 83 percent of White borrowers owe 12 percent less than they borrowed. And over half of Black students say that their student loan debt exceeds their net worth.
- ▶ Not only do Blacks carry more college debt, but they also do not receive the same returns to education as do Whites. In fact, according to



the Economic Policy Institute (EPI), the Black-White wage gap is larger today than it was more than a decade ago, and this wage gap exist regardless of educational attainment.

- ▶ High student loan debt stifles the ability of Black college graduates to accumulate wealth, particularly through attaining homeownership.
- ▶ Moreover, a disproportionate share of Black adults who enter college do not graduate and therefore must settle for jobs that pay wages that are insufficient to repay their college loans; many young Blacks start their adult lives with student loan debt for which they will never be able to afford to repay.
- ▶ Brookings Institution research highlights that none of the current federal policies designed to assist families manage the rising cost of student debt are meaningfully helpful to the average Black college graduate with student debt.

### Foreclosures and House Prices

- ▶ As of September 2021, Black households were missing almost 700,000 jobs relative to their February 2020 peak employment levels. Based on current indicators, the labor market likely will not return to its previous peak until March 2022.
- ▶ The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) placed a moratorium on foreclosures of loans backed by federal agencies. Application for CARES Act protection was very simple, requiring no documentation of economic distress, rather, just a confirmation that a borrower was experiencing Covid-related economic hardship.
- ▶ The Mortgage Bankers Association estimates that at the height of the moratorium, nearly 5 million households (or 10 percent of owners with a mortgage) had registered for mortgage payment protection.

- ▶ The data does not show the extent to which borrowers who are no longer captured in the CARES Act moratorium protection data are able to begin to make mortgage payments.
- ▶ The share of mortgage borrowers who are behind on their home loans was 2.45 times higher in February 2021, relative to February 2020. For a variety of reasons, many people who still may require CARES Act moratorium protection may have fallen out of the pipeline.
- ▶ Blacks were about equally likely to enter mortgage forbearance as other households that missed mortgage payments. But 12.3 percent of Black borrowers were past due in 2020 compared to 4.3 percent for Whites.
- ▶ The share of Black households that are late on their mortgage payments, combined with continuing high Black unemployment, raises concerns about the ability of many Blacks to return to making mortgage payments, now that the federal foreclosure moratorium has terminated; it also raises doubts for the near-term increase in new Black homeowners.
- ▶ Home prices soared during the pandemic recession; the S&P CoreLogic Case-Shiller Home Price Index estimates home prices rose nearly 20 percent between August 2020 and August 2021.
- ▶ High home prices exacerbate existing downpayment and debt to income challenges for prospective Black home buyers, in general, and particularly, Black millennials, who hold student loan debt.