BRIDGING THE BLACK AND LATINX HOMEOWNERSHIP GAP

HOUSING ACTION ILLINOIS HOUSING MATTERS CONFERENCE

OCTOBER 14, 2020
The Community Reinvestment Act (CRA) was enacted in 1977 to prevent redlining and to encourage banks and savings associations (collectively, banks) to help meet the credit needs of all segments of their communities, including low- and moderate-income neighborhoods and individuals. The CRA extended and clarified the long-standing expectation that banks will serve the convenience and needs of their local communities. (1)

The Fair Housing Act (FHA) and the Equal Credit Opportunity Act (ECOA) protect consumers by prohibiting unfair and discriminatory practices.

The FHA prohibits discrimination in residential real estate–related transactions based on
- race or color.
- national origin.
- religion.
- sex.
- familial status.
- Handicap.

The ECOA prohibits discrimination in credit transactions based on
- race or color.
- national origin.
- religion.
- sex.
- marital status.
- age.*
- applicant's receipt of income from a public assistance program.
- applicant's exercise, in good faith, of any right under the Consumer Credit Protection Act.
CRA REFORM UPDATE

OCC going it alone on Community Reinvestment Act reform, with Otting reportedly set to step down

Banking regulator releases final rule on CRA changes without FDIC or Fed sign-off

September 21, 2020

Federal Reserve Board issues Advance Notice of Proposed Rulemaking on an approach to modernize regulations that implement the Community Reinvestment Act


(2) https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200921a.htm
The Spirit And Color Of CRA: Greater Emphasis On Communities Of Color In The Community Reinvestment Act

By Lorenzo “Zo” Amani / August 12, 2020

“CRA is a color-blind law that uses income as a proxy to address minority individuals and neighborhoods, moving forward, we should pursue a more specific and intentional focus on supporting people and communities of color with CRA.”
LENDING BARRIERS

Factors that determine if you are approved for a loan and how much:

**Income**
- How much you can afford
- Funds available for down payment and reserves

**Assets**
- Savings for down payment
- Savings for maintenance and emergencies

**Credit History and Score**
- Length of history
- Type of credit
- Payment history
INCOME IMPACT

MONEY

The Racial Wealth Gap in America: Asset Types Held by Race (US Federal Reserve data) June 12, 2020

Assuming a recommended 30% of monthly income being used for housing expense (1):

- White households have $1,530 for housing
- Black households have $885 for housing
- Hispanic households have $963 for housing

The ability to create and maintain quality affordable housing is critical.

(1) – Calculations based on the median household income data.
ASSETS

Average savings account balance by race
With white Americans earning more on average than their Black and Hispanic counterparts, wealth and savings follow suit.

Breakdown of median savings account balance by race:
- White non-Hispanic: $7,140
- Black: $1,000
- Hispanic: $1,500

Liz Smith, SmartAsset - Feb 8, 2018

Development and funding of grant programs to assist borrowers with asset challenges and affordable mortgage products that provide for down payment flexibility are key.
A person is “credit invisible” when she does not have a record of credit with one of the three largest credit rating agencies in the United States: Experian, Equifax, or TransUnion. Latinos are almost twice as likely to be credit invisible than Whites.

More than 50% of White households had a FICO credit score above 700, compared with only 21% of Black households, according to a 2017 study by the Urban Institute. A “good” credit score (700 or higher) is often necessary to be eligible for the best interest rates for most types of loans.

CFPB- in 2015 the CFPB published a report finding that 26 million Americans are “credit invisible.” This figure indicates that one in every ten adults does not have any credit history with one of the three nationwide reporting companies. An additional 19 million consumers have “uncurable” credit files, which means that their file is thin and has an insufficient credit history (9.9 million) or they have stale files and lack any recent credit history (9.6 million). In sum, there are 45 million consumers who may be denied access to credit because they do not have credit records that can be scored.

1. https://www.consumerfinance.gov/about-us/blog/who-are-credit-invisible/
The Project REACH Approach
REACH (Roundtable for Economic Access and Change) brings together leaders from banking, business, technology, and national civil rights organizations to reduce specific barriers that prevent full, equal, and fair participation in the nation’s economy.
PROJECT REACH

Goals:

- Establish an alternative credit scoring method that regulators recognize as a safe, fair tool to assist in underwriting
- Convert bank-owned housing inventories into affordable homes through low-cost transfer and renovation loans
- Address structural barriers and harness market focus to create affordable financial products that allow minority groups and low-income Americans to own and start businesses.

National Projects:

- Inclusion for credit invisibles – Work with technology partners to synthesize a credit score from alternative data
- Revitalization of Minority Deposit Institutions (MDIs) – Development of partnerships and mentorships between MDIs and other banks
- Affordable housing – Development of down payment products
PARTNERSHIP ACTIVITIES

What can lending partners do now:
- Referrals to our housing counseling partners for credit, budget, purchase and post purchase training
- Banks can continue to provide training scholarship opportunities to ensure our counselors have the most up to date information as they support their constituents
- Mortgage professionals should meet with housing counselors to discuss how product and policy changes impact the homeownership application process and documentation needs.
- Work with Realtors to ensure awareness of homebuyer incentives, and improve communication and collaboration during the mortgage application process
The Racial Wealth Divide

Dedrick Asante-Muhammad
Chief of Race, Wealth and Community
National Community Reinvestment Coalition
The Foundation of Racial Inequality

“*The foundation of racial inequality is racialized economic inequality and the foundation of economic inequality is wealth inequality.*”

- Race and Economics in the US:
  - Racial Inequality has always had economic inequality at its foundation.
The Negative Feedback Loop of Black Asset Poverty

LACK OF HOUSEHOLD ASSETS
57% of Blacks are in liquid asset poverty. (Do not have enough liquid savings to replace income at the poverty level for 3 months)
Median household income is $36,651.

INFERIOR PUBLIC ASSETS
Black communities most often live in areas with inferior public assets: public schools, public safety, public health, public transportation

GREATER FINANCIAL RESPONSIBILITIES
Debts, pent-up demand & need for financial support from family & community means increased income go toward consumption then asset development

SEGREGATED FROM SOCIO-ECONOMIC OPPORTUNITY:
Living wage jobs and social networks are located outside of the communities asset-poor Blacks live in.

INFERIOR SERVICE FROM THE MARKET:
Products sold in communities of asset poverty are inferior and often times more expensive than similar products available to high income communities.
White families are as likely to be millionaires (about 15%) as to have zero or negative wealth (about 15%). While only about 2% of Blacks and Latinos are millionaires while about 35% have zero or negative wealth.

-Dreams Deferred by the Institute for Policy Studies
## Homeownership is Primary Source of Wealth for Most Americans

Table 4. Composition of Household Wealth by Wealth Class, 2016
(Percent of gross assets)

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Top 1%</th>
<th>Next 19%</th>
<th>Middle 60%</th>
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</thead>
<tbody>
<tr>
<td>Principal residence:</td>
<td>25.1</td>
<td>7.6</td>
<td>25.6</td>
<td>61.9</td>
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<tr>
<td>Liquid assets:</td>
<td>6.7</td>
<td>4.6</td>
<td>7.7</td>
<td>8.5</td>
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<tr>
<td>(bank deposits, money market funds, and cash surrender value of life insurance)</td>
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<tr>
<td>Pension accounts</td>
<td>15.6</td>
<td>6.0</td>
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<tr>
<td>Corporate stock</td>
<td>20.8</td>
<td>31.4</td>
<td>18.6</td>
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<tr>
<td>Financial securities mutual funds, and personal trusts</td>
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<tr>
<td>Unincorporated business equity</td>
<td>30.5</td>
<td>49.0</td>
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<tr>
<td>other real estate</td>
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<tr>
<td>Miscellaneous assets</td>
<td>1.3</td>
<td>1.4</td>
<td>1.2</td>
<td>1.2</td>
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<tr>
<td>Total assets</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Has Middle Class Wealth Recovered – Edward N. Wolf. Nov. 29\textsuperscript{th}, 2017

For 4th Quarter of 2018: White HR – 73.6%;
Black HR – 42.9%; Hispanic HR – 46.9%

US Census: Quarterly Residential Vacancies and Homeownership, Fourth Quarter 2018
Housing Policy & the Racial Wealth Divide

Policy, Practice and Violence
Reinforce White Economic Advantage

Restrictive Covenants and HOAs

Redlining

Racial Violence

None of the said lands, interests therein or improvements thereon shall be sold, resold, conveyed, leased, rented to or in any way used, occupied or acquired by any person of Negro blood or to any person of the Semitic race, blood, or origin which racial description shall be deemed to include Armenians, Jews, Hebrews, Persians or Syrians.
Why Are the HOLC Maps Relevant Today?

- They document a persisting structure of segregation and economic inequality.

64% of the “Hazardous” neighborhoods 80 years ago are majority-minority today and highly segregated cities have seen less change.

74% of the “Hazardous” neighborhoods 80 years ago are low-to-moderate income today.
FAIR HOUSING FOR ALL BEFORE THE FAIR HOUSING ACT

The History of Fair Housing Rights

1789
Private Property Rights
The Constitution protects property rights. Slaves, court suits and legislation denied these rights to African Americans, Latinos, Asian Americans and other minorities.

1866
The Civil Rights Act of 1866
Provides that all citizens have the same rights to real property as white citizens. Court cases, immigration laws and racially defined zoning deny those rights.

1917
Racial Zoning Outlawed
The Supreme Court invalidates zoning based on race. Property owners, real estate interests and local governments employ deed restrictions based on race and religion. Lenders and practices continue to deny property rights based on race.

1948
Restrictive Covenants Not Enforceable
The Supreme Court and federal court enforcement of racially restrictive covenants. A growing fair housing movement passes fair housing laws in New York City and Colorado in the 1950s.

1968
Fair Housing Act
Franklin's belief in equal opportunity in housing. No person of any color should have the right to work or purchase a home because of his race. Housing is one of the most basic needs of our society. Equality in housing is the right of every American.
Sixty-one percent of Latino households and 44 percent of Black households have had a job or wage loss due to the pandemic, compared to 38 percent of white households.

**Invest in Affordable Housing**

The proposed “American Housing and Economic Mobility Act” has many important reforms including: $445 billion investment over 10 years in the Housing Trust Fund, which would provide up to 2.17 million homes for low income families. The bill also provides down payment assistance to first-time homebuyers living in formerly redlined or officially segregated areas. AHEMA also strengthens the Community Reinvestment Act by forcing institutions to serve creditworthy families in communities they’ve historically ignored. Finally the report recommends converting the mortgage interest deduction into a refundable tax credit and a renter’s tax credit.

**Eigh Solutions**

1. Improve Racial Data Collection as Part of Emergency Investment
2. Audit Crisis Relief and Recovery Policies for Racial Equity
3. Implement Income Supports that Expand to Guaranteed Income
4. Institute Postal Banking
5. Delink Health Care from Employment
6. Expand Inclusive Housing and Ownership
7. Create a Federal Jobs Guarantee with a Living Wage
8. Institute Baby Bonds
STAY CONNECTED

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Bridging the Racial Wealth Divide

inequality.org/topics/racial-wealth-divide

ncrc.org