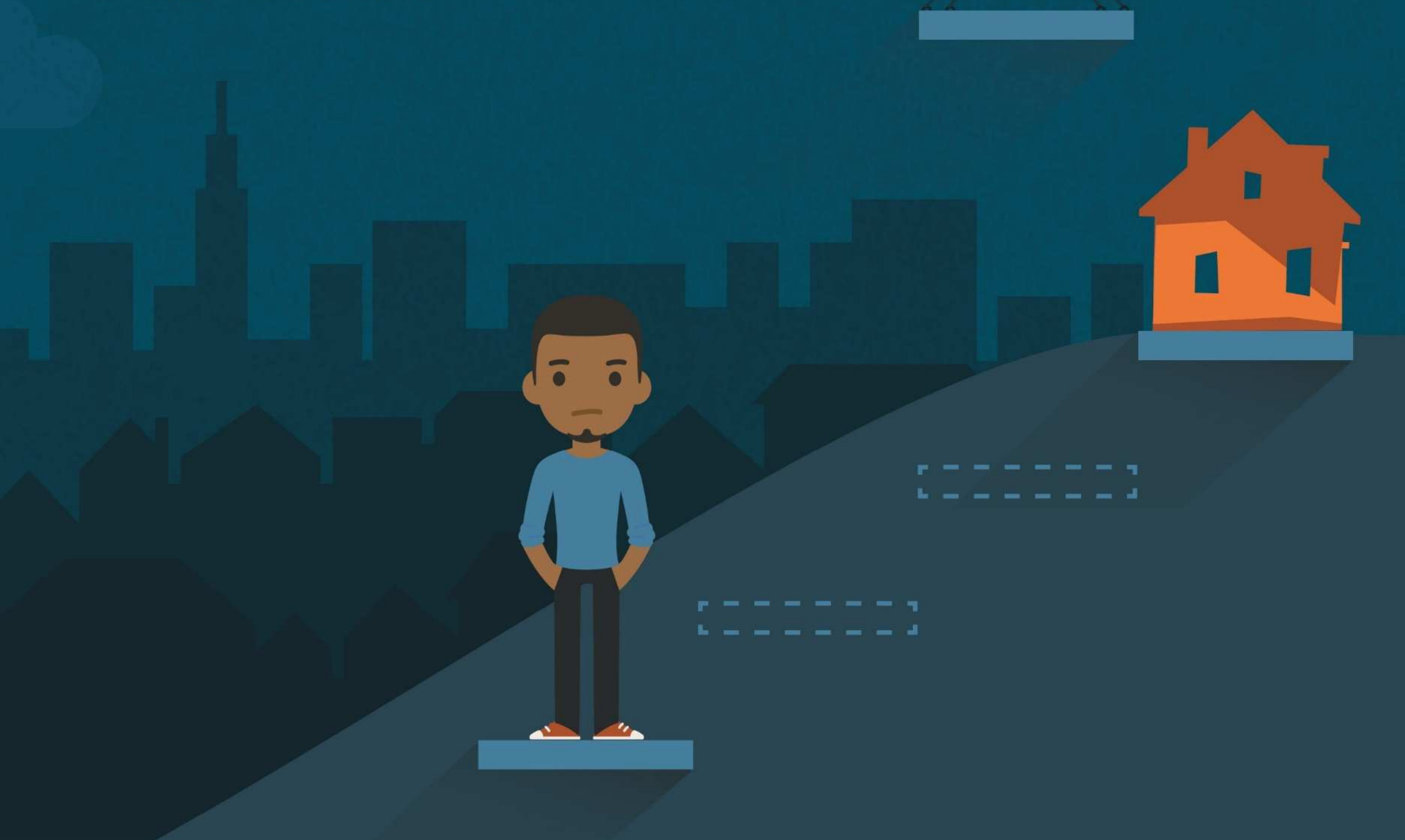
A DOWNPAYMENT ON THE DIVIDE

STEPS TO EASE RACIAL INEQUALITY IN HOMEOWNERSHIP



By Anju Chopra, Dedrick Asante-Muhammad, David Newville & Doug Ryan

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RACIAL wealth DIVIDE INITIATIVE

I'M HOME
Innovations in Manufactured Homes

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Table of Contents

Executive Summary

White households have much more wealth than Black and Latino households in this country, and the largest source of this wealth is often their homes. Given this, it is not surprising that homeownership is one of the most significant contributors to the racial wealth divide. Indeed, while the White homeownership rate is around 70%, the rate for Blacks and Latinos is approximately 30 percentage points lower.

Decades of discriminatory practices in the real estate industry, by financial institutions, and policies by government at all levels, created these racial disparities in homeownership. Some of the most damaging examples of these practices are detailed below:

- Racial discrimination over several decades almost completely kept Black households off the homeownership ladder. Between 1934 - when the 30 year fixed mortgage was introduced – and 1968, 98% of loans with more affordable terms that were backed by government guarantees were extended to White households, meaning a mere 2% were extended to non-Whites during this timeframe.
- The 2008 housing crisis, driven by predatory lending practices, had a disproportionately negative impact on Black and Latino households, and erased many of the gains made during the uptick in homeownership that occurred around that period. These families lost half their wealth following the downturn, while White family wealth was only reduced by 16%. The foreclosure rate was also 50% higher for Blacks and Latinos in the wake of the crash.

While the biggest and most explicit forms of these discriminatory practices are now in the past, the legacy of some of these practices still exists today. In combination with other social and economic factors, this legacy continues to perpetuate and grow the racial homeownership divide. For example:

- White families receive much more help from family to pay for the upfront costs that come with homeownership. Along with other savings and income advantages, this help allows White households to get on the homeownership ladder 8 years earlier than Black households, which is almost a full decade of additional equity-building time.
- Black and Latino households are denied mortgages more often than Whites, and if they are extended a mortgage, it is usually on less favorable terms. While the denial rate for Blacks is more than 25% and for Hispanics is close to 20%, the rate for White households is just over 10%, meaning Blacks and Hispanics have a denial rate that is twice as high or higher than Whites.

Federal policy intervention is required in order to address these inequities and begin to close the racial homeownership divide. If no policy action is taken, the homeownership and wealth disparities for Black and Latino households will only get worse. The new administration and Congress need to act now to reverse course on the racial wealth divide in homeownership. Below are some key policy recommendations that decisionmakers should implement:

- **Reform the tax code by replacing "upside down" homeownership tax programs - like the mortgage interest tax deduction** – with tax credits and matched savings programs that are better at sharing the benefits across the income spectrum. The tax code touches every tax filer in this country, and costs the government billions of dollars each year. Any serious efforts to alleviate racial homeownership disparities should include a change to the tax code.
- **Preserve Fannie Mae and Freddie Mac's affordable housing goals** that help lower- to moderate income households. If Fannie and Freddie are restructured, it is going to be important to keep programs that are made to increase mortgage lending and the affordability of homeownership.

- **Support the Consumer Financial Protection Bureau (CFPB).** The CFPB has the authority to regulate mortgage lending practices that violate consumer safety and soundness, and they have used this authority to pass regulations like the Ability to Repay (ATR) rule. The agency has made a difference, particularly for the low-income households that are often disproportionately marketed predatory products, and need to be protected.
- **Promote the use of alternative credit scoring models** that are more inclusive and better tailored to gauge the creditworthiness of lower wealth households. Credit scores are a fixture of mortgage financing, but all too often the scores that are used consider expenses that advantage wealthier households.
- **Protect and enforce important anti-discrimination regulations** like the Fair Housing Act and its duty to Affirmatively Further Fair Housing. An important way to work toward greater homeownership equity is to adequately police the lenders, agents, municipalities and other entities that are guilty of discrimination in the housing market.

Introduction

The ability to own a home has been one of the cornerstones of American life for the last several decades. In fact, the dream of homeownership is so much a part of the national narrative that it is hard to imagine there was ever a time it was not so fundamental. Owning a home matters to people for a number of reasons, and the role it plays in building wealth is one of the most important. Indeed, a home often has more value than any other asset a person owns.

At the same time, some groups of people benefit more from this asset than others. Specifically, White households tend to have higher homeownership rates and own more valuable properties than Black and Latino households (please see the box below for a discussion about homeownership among other minority groups). This report examines the interplay between homeownership and racial wealth inequalities.

ASIAN AMERICANS, PACIFIC ISLANDERS, AND NATIVE AMERICANS

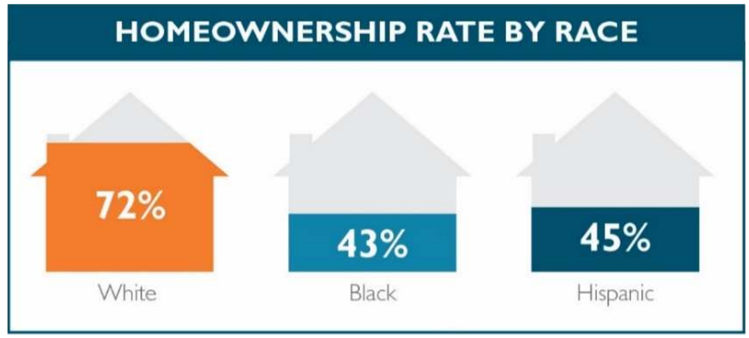
The data in this proposal focuses on Black and Latino homeownership, not homeownership among Asian-Americans, Pacific Islanders, or Native Americans. While these communities of color are certainly worthy of study, there is currently not enough data on homeownership for these groups. Moreover, what does exist does not present a clear and comprehensive picture of the homeownership landscape for these communities, though it does suggest there likely are meaningful differences that should be explored in more detail. For example, the Center for American Progress did a study on Asian American wealth entitled *Wealth Inequality Among Asian Americans Greater than Among Whites*, which discovered there is greater wealth inequality between the highest and lowest income earners in this group. It also provides some evidence that Vietnamese-Americans are less financially secure than other nationalities. To address this lack of information, more disaggregated data - that separates nationalities from these groups - needs to be collected and examined.

There is a significant and ever-growing racial wealth divide. White families have much more wealth than Black and Latino households in this country. The overall median net worth for White households currently stands at $110,637, compared with $8,985 for Latino households and $7,113 for Black households.[1] These stark differences are the product of decades of increasing inequality and a foundation of racism that goes back centuries.

Growing racial wealth inequality has significant implications for the future prospects of these households. Wealth is the pathway to high-quality education, business ownership, homeownership in safe and desirable communities and a host of other economic and social advantages that contribute to lifelong opportunities. Without change, Blacks and Latinos will be at a steadily growing disadvantage for the foreseeable future.[2]

Disparities in homeownership play an outsized role in perpetuating the racial wealth divide. Of all the ways a family can build wealth, none is more significant than homeownership. Because a house is often a person's most valuable asset, it contributes to family wealth more than anything else, regardless of race. But for Black and Latino families, the reliance on homeownership for financial security is even more pronounced. While 34% of White wealth is generated through homeownership, approximately 56% of Black and Latino wealth comes from owning a home.[3]

On top of this, White families are much more likely to own a home than Black and Latino families. Recent figures put the White homeownership rate at 71.9%, while Black and Hispanic households have much lower rates at 41.3% and 47%, respectively.[4] In short, White households are more likely to secure this important asset—and the wealth-building potential that comes with it—than are Black and Latino families.



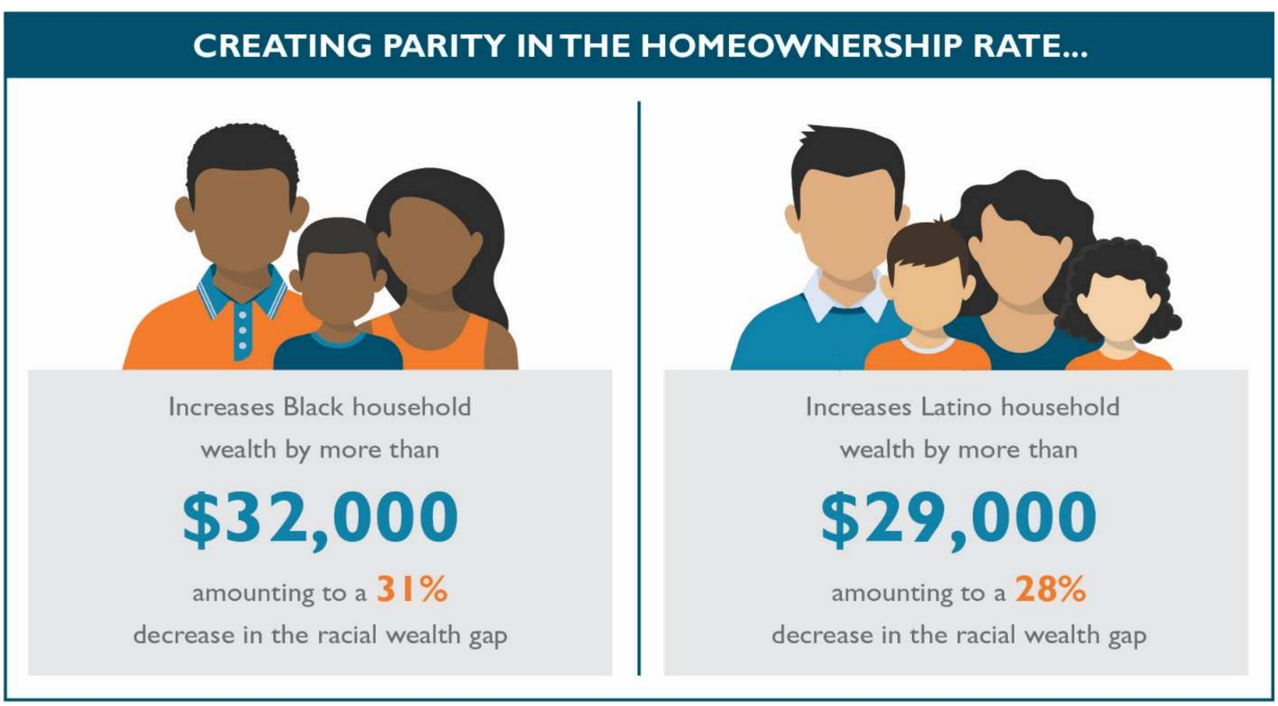
Source: Pew Research Center, 2017

Due to the outsized role homeownership plays in creating wealth, inequities in homeownership have especially important implications for the racial wealth divide. If parity in homeownership became a reality, the opportunities for Black and Latino households to create wealth would significantly and measurably improve, and the racial wealth divide would narrow considerably.

A home is many things. It gives people shelter and creates a space that is a reflection of themselves. It shapes the community a person becomes a part of, influences educational opportunities, and affects safety and health. The goal of this report is to put a spotlight on the potential of homeownership to build financial security, and what this could mean for the racial wealth divide.

Parity in Homeownership Could Significantly Reduce the Racial Wealth Divide

The Racial Wealth Audit™—a tool designed by the Institute on Assets and Social Policy at Brandeis University and Demos to measure the impact of a particular policy change on the racial wealth divide[5]—indicates that equalizing homeownership rates and returns on investment for homes would lead to a narrowing of the wealth gap to an extent not seen when most other assets are leveled in a similar manner.[6] Specifically, creating parity in



Source: Institute on Assets and Social Policy, 2015 the homeownership rates by race—so Blacks and Latinos own homes at the same rates as White households—increases Black household wealth by more than $32,000, amounting to a 31% decrease in the Black-White wealth gap. Similarly, Latino households would experience an increase in household wealth of more than $29,000, which would reduce the Latino-White wealth gap by 28%. Meanwhile, parity in appreciation—which would ensure that Blacks and Latinos enjoy the same gains in home values as White households—would grow Black household wealth by more than $17,000, leading to a 16% reduction in the Black-White wealth gap. For Latino households, parity in appreciation would lead to a growth in asset value of more than $24,000, producing a remarkable 41% reduction in the Latino-White wealth gap. For comparison, these percentages are much higher than for removing inequity in college graduation rates and the return on investment for college degrees, which is 1% and 3% respectively for Blacks and Latinos in terms of rates, and 11% and 9% respectively for returns on investments in a degree.[7]

What this Proposal Explores

Given what we know about the interplay between homeownership and the racial wealth divide, this policy proposal offers a detailed examination of the inequities in racial homeownership. The first part of this proposal explores the historical underpinnings of the problem, starting in the early part of the 20th century. The second part moves into the present and considers the main drivers behind the racial homeownership divide today. Finally, the proposal concludes by recommending a number of policy solutions that could meaningfully reduce the divide and put homeownership within the reach of more Black and Latino families.

Historical Prejudices and Policies that Have Contributed to the Homeownership Divide

To best address the problem, it is important to understand how we got here. There are social and economic forces, as well as historic housing policies dating back to the early part of the 20th century, that have shaped the homeownership landscape over time to create the disparities that exist today. These historical forces are considered in more detail below.

Overt discrimination in the early part of the 20th century. The early part of the 20th century was marked by overtly discriminatory acts at both the public and private level that segregated communities by race in all regions of the country. Ordinances and other government-mandated regulations were passed at the state and local level that explicitly reserved certain parts of a community for particular races. These were judicially enforced, but communities also employed violence and other forms of intimidation to maintain racial homogeneity. These types of ordinances were struck down as unconstitutional in 1917 (a violation of due process), putting an end to this type of government-sponsored segregation, though more would come, and this did not stop the use of private deeds and covenants that produced similar results.[8]

Restrictive covenants are private contracts that are often established by neighborhood associations that limit how property is developed or who can live in a particular place. Examples include how large or small a lot should be, or whether single- or multi-family housing is allowed.[9] During the early part of the 20th century, communities would often use these contracts to maintain residential segregation. Indeed, restrictive covenants that prohibited ownership by anyone other than the “Caucasian race” were so pervasive they existed in virtually every new housing development in the North (the South followed suit when public regulations were disallowed).[10] These types of covenants would remain legal and enforceable until the Supreme Court struck them down in 1948.[11]

Discriminatory redlining is built into Federal Housing Authority practices. In 1934, the Federal Housing Authority (the Authority) was created. This agency created the modern mortgage system, which institutionalized unprecedented low downpayments, modest interest rates, long-term repayment plans (which gave rise to the 30-year fixed-rate mortgage) and government guarantees. These changes put homeownership within the reach of many White households that were previously unable to afford the dream of homeownership.[12] Unfortunately, policies and procedures were built into these programs that served to exacerbate an already segregated housing landscape by excluding millions of eligible Black and Latino households.

The Authority utilized practices established by the Home Owners Loan Corporation (HOLC), a government-sponsored enterprise established as part of the New Deal to stave off home foreclosures. These practices included drawing "red lines" around communities that were considered derelict or where providing credit was considered to carry higher risks.[13] Deemed too risky for investment, originations in these areas were rarely covered by federal guarantees, leading many lenders to not extend mortgage credit to these communities. As a result, residents of these redlined areas were prevented from accessing mortgage credit and were kept out of higher-demand neighborhoods in the suburbs.

Significantly, the racial composition of a community was a factor in determining whether a neighborhood would be redlined, both explicitly and implicitly. Sometimes, the preference for homogenous neighborhoods was openly and transparently endorsed. For example, the Authority's *Underwriting Manual* explicitly encouraged racial segregation, stating "if a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes."[14] At other times, the discrimination was more veiled. For example, the Authority's rating system referenced more vague concerns like maintaining "economic stability" or reducing "adverse influences" that would be interpreted as sanctioning segregation along racial lines.[15]

Real estate industry fuels discriminatory practices. Compounding the problem was the real estate industry itself, which believed that the introduction of minorities into neighborhoods would negatively impact property values and go against the preferences of White residents. In fact, between 1917 and 1950, the charter of the National Association of Real Estate Boards made it an ethical violation to encourage racial integration that would compromise the social or economic health of a neighborhood.[16] These standards made the intentions of core players in the real estate industry clear. Indeed, these biases became so ingrained in the real estate market that they impacted how agents, associations and other private-sector actors would list homes and who would be shown particular properties long after 1950.

Taken together, these discriminatory policies and practices did what they set out to do: they prevented a significant number of Black families from becoming homeowners. Between 1934 and 1968, all but two percent of loans that received government backing were extended to White households, revealing an almost complete shutout of Black households during the greatest spike in homeownership the country ever experienced.[17]

The Fair Housing Act (FHA) of 1968 was a major victory that ended some of the most explicit discriminatory behavior sanctioned by the government and exacerbated by private contracts and the real estate industry. However, more subtle forms of discrimination emerged or continued, and the impact these practices had on the housing landscape are visible and continue in some form to this day. In 1980, Blacks were the most highly segregated racial group, followed by Hispanics. Across all major metropolitan areas (the average of cities with populations of one million or more), more than 70% of Blacks would need to move to achieve meaningful integration, and more than half of Hispanics would have to do the same, compared with less than 50% for other minority groups.[18] While the current landscape is not as segregated as 1980, the gains over the last 35 years are modest, and Blacks and Hispanics continue to be the most segregated groups.[19]

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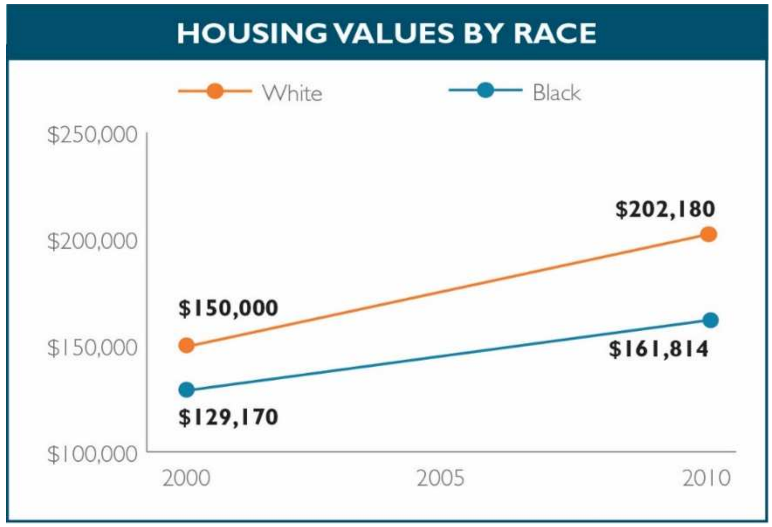
This excessive segregation is important for a number of reasons, including the implications for household wealth. Predominantly Black or Latino neighborhoods are more often poor areas that are in less demand than predominantly White neighborhoods, which has a predictable impact on home values and housing appreciation. For every dollar of wealth added to a Black household through homeownership, White homeowners add $1.34. The difference is even greater between White and Latino households; White households add $1.54 to their pockets for every dollar a Latino household earns though homeownership.[20]To look at it from another vantage point, consider the following differences in home value increases over a ten-year span. In 2000, the median value of a home owned by a middle-income White household was $150,000; ten years later that number had risen to $202,180. The home value for a Black family with a similar income in 2000 was $129,170, and by 2010, the number had increased modestly to $161,814. This means White families in this bracket experienced a 35% increase in housing values over this ten year span, compared with only 25% for Black households in the same bracket.[21]



Source: *Institute on Assets and Social Policy*, 2014

The 2008 housing crisis wipes out significant gains. After the federal government ended its explicit endorsement of discriminatory practices in the housing market, homeownership rates for Blacks and Latinos began to rise, although rates still remained well behind those of White households. This includes the housing boom at the beginning of the 2000s, which benefitted all races, albeit unevenly. In 1994, Black and Hispanic households had homeownership rates that hovered just over 40%, which climbed steadily so that by 2002, the rates neared the 50% mark and remained there until the housing crisis of 2008. White households also experienced meaningful gains during this timeframe. In 1994, the White homeownership rate was around 70%, and by 2008, the percentage had increased by more than five percentage points.[22]

When the Great Recession hit in 2008 and the housing bubble burst, homeownership rates fell back to pre-2000 levels for both groups, but Black and Latino homeowners suffered worse losses than their White peers, partly because a greater proportion of their wealth was in home equity. While the wealth of Black and Latino households was reduced by half during the downturn, White households only lost 16% of their wealth.[23] Meanwhile, the foreclosure rate for Black and Latino households was 50% higher than for White households.[24] The Great Recession was one of the most damaging blows to Black- and Latino-owned wealth in recent memory and wiped out many of the homeownership gains fueled by the housing boom during the earlier part of the decade. Furthermore, during the years that followed the crisis, White households experienced a quicker recovery from the blow to home values that occurred during the crisis than their Black counterparts. Between 2007 and 2009, White home equity declined by 9%, but between 2009 and 2011, the rate had slowed to 2%. Black households experienced a 12% reduction between 2007 and 2009, which slowed to 6% between 2009 and 2011.[25]

The federal income tax system promotes homeownership, but deepens the divide. The federal income tax system has also been a major factor in the growth of homeownership rates and the divide between White households and Black and Latino families. The ability to deduct mortgage interest payments has been the primary driver behind the growing divide perpetuated by the tax code. The federal government has allowed taxpayers to deduct mortgage interest from taxable income since 1913, but the ability to do this did not become a defining feature of homeownership until after World War II, when the rate of homeownership increased exponentially.[26]

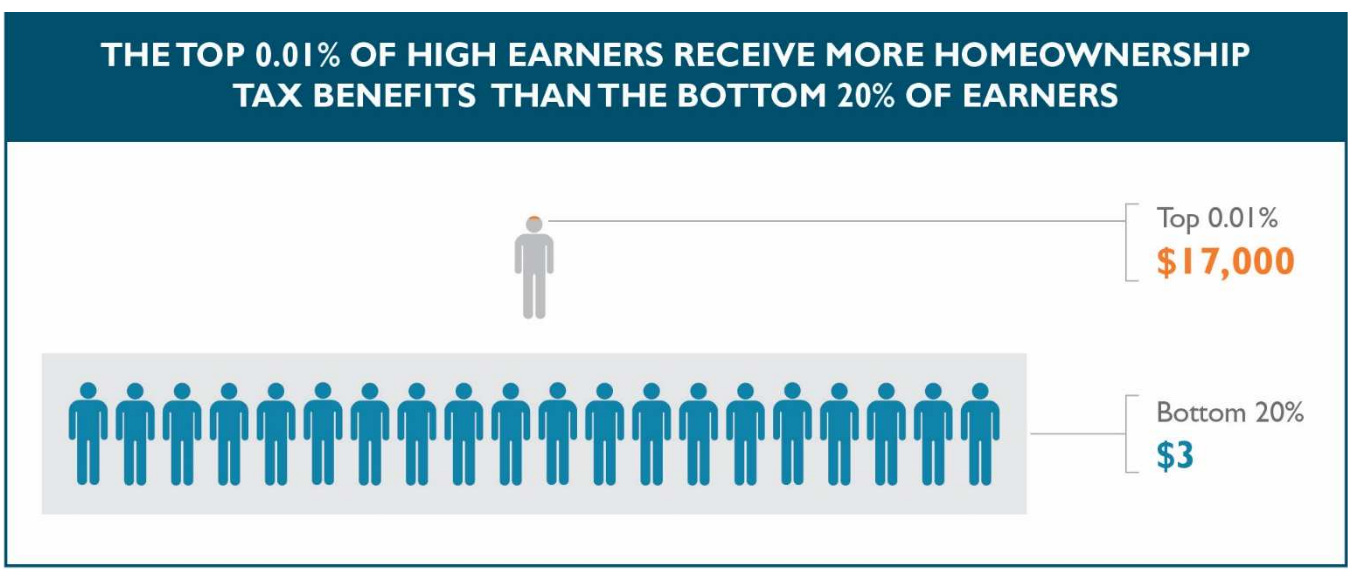
Today, homeownership tax programs like the mortgage interest deduction and real estate tax deduction are massive homeownership support programs that dwarf other housing initiatives by a considerable margin. As its name indicates, the mortgage interest deduction allows a tax filer to subtract the interest owed on their mortgage from the amount of income that can be taxed, while the real estate deduction does the same for the property taxes owed on a home. The federal government spent $118 billion dollars on these two programs in Fiscal Year 2016 alone,[27] which is more than twice what was appropriated to the U.S. Department of Housing and Urban Development the same year.[28]

Yet, while the scale of these deductions are impressive, they have done little to close the racial wealth divide. Because minorities were systematically locked out of the homeownership market during the first half of the 20th century, they were never able to take advantage of the deductions. But even as the market became more inclusive, these deductions still did nothing for far too many Black and Latino families and continue to do little up to the present day. That is because the way the deductions are structured works against the interests of low-income families where Blacks and Latinos are over-represented.

In order to take advantage of this benefit, a household must have more deductible expenses than the standard deduction, which is currently $12,600 for married filers and $6,300 for single filers. Most low- and moderate-income households do not have enough deductible expenses, so they can't take advantage of the mortgage interest deduction or the real estate tax deduction. Indeed, while 95% of those who make more than $200,000 itemize their deductions, only 13% of filers that make $50,000 or less do the same.[29]

Even worse, the monetary benefit that wealthier families receive from the mortgage interest deduction increases as the size of their mortgage increases. This has the adverse effect of incenting and subsidizing the purchase of larger homes, instead of encouraging low- and moderate-income households to become homeowners and helping them with the costs of homeownership. The deduction also has a very high ceiling. Filers are allowed to deduct up to $1 million in mortgage interest on primary residences and second homes, and remarkably, even yachts are eligible.[30]

The result is that the top 1% (highest-income fifth) of tax filers pocket more than 70% of the total expenditures for both of these deductions. In fact, the average monetary advantage conferred upon a household in the bottom 20% of earners was a mere $3, compared to more than $17,000 for households in the top 0.1%.[31] Figures like these make it clear just how advantageous these programs are for the well-off.



Source: *From Upside Down to Right-Side Up*, 2014

The Biggest Barriers to Achieving Homeownership Equity in the Present Day

The historical underpinnings of the racial homeownership gap may be in the past, but their influence lingers today and interacts with current social, political and economic forces to perpetuate disparities. Some of these present-day factors facing Black and Latino households include less wealth, compromised credit, discrimination and racial segregation. These are certainly not the only factors involved, but they are some of the most significant and the ones that are most appropriate for new or continued policy interventions by the federal government.

Unaffordable downpayments. The very first step to becoming a homeowner is having a downpayment saved to put toward a new home. Saving for a downpayment is a challenge for many people in this country regardless of race, but like so many issues related to wealth, it is an especially difficult lift for Black and Latino households. As was previously mentioned, whether the issue being discussed is about homeownership or any other asset, White families have much more wealth than most communities of color.

Part of the reason why saving for a downpayment has become increasingly difficult is because of falling or stagnant income levels and low savings rates. The income poverty rate— the percentage of households with income below the poverty level—is 10.9% nationally for White households, compared to 26.1% for Black households and 23.5% for Hispanic households.[32] Liquid asset poverty rates—the percentage of households that could not afford their basic living expenses for three months in the event of a loss of stable income—show similar disparities. White households have a liquid asset poverty rate of 34.7% nationwide, while the rate for Black households is nearly double at 67.2%, while liquid asset poverty rates among Hispanic households are even higher at 71%.[33]

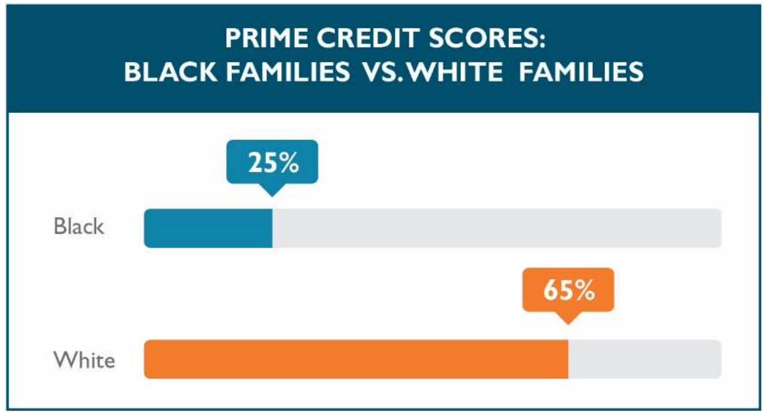
These types of wealth, savings and income advantages allow White households to purchase homes eight years earlier on average than Black households, giving them almost a full decade of additional time to build equity.

Given low incomes and low savings rates, the alternate means of coming up with a downpayment for a home is often gifts or inheritances from family members or friends. Given the wide racial wealth disparities in the United States, it is no surprise to learn that White households benefit much more from inheritances and other methods of transferring wealth from family member to family member. Indeed, White households are three times more likely to rely on family assistance for downpayments than Black households, and nine out of every 10 Black homeowners cover the entire downpayment with their own savings.[34] These types of wealth, savings and income advantages allow White households to purchase homes eight years earlier on average than Black households, giving them almost a full decade of additional time to build equity.[35]

One proven method for helping bridge the downpayment gap for Black and Latino households is through downpayment assistance programs that target low- and moderate-income households. Downpayments—a certain percentage of the home's purchase price that must be paid upfront in a lump sum—often must amount to 20% of the purchase price in order for the homebuyer to qualify for mortgages at prime rates. Downpayment assistance programs lower this amount by reducing the percentage, providing grants of a certain dollar amount or using other financial tools to reduce the lump-sum cost due at purchase. For example, a homebuyer can qualify for a Federal Housing Administration-backed loan with as little as 3.5% down,[36] which is much lower than the 20% downpayment rate preferred by the conventional real estate mortgage industry.[37]

When it comes to the racial wealth divide in homeownership rates, these programs can have a significant impact. Evidence suggests that even modest amounts of downpayment assistance can make homeownership affordable for a significant number of low- and moderate-income households. For example, one study indicates that assistance of as little as $1,000 increases homeownership among low- and moderate-income households by 19%,[38] and making higher amounts available has the potential to transform even more of these families into homeowners.

Lack of access to quality credit. Good credit scores are the key to accessing safe mortgage products on the most favorable terms, and while millions of Americans of all backgrounds are saddled with poor or non-existent credit, Black and Latino consumers are particularly hard hit, routinely lagging behind White households when it comes to quality scoring. Compared with White consumers, these groups have higher rates of unscorable or "invisible" credit profiles,[39] as well as lower scores.[40] Indeed, a 2008 report by the Federal Reserve indicates that less than 25% of Black families have prime scores, while the rate for White families is more than double at 65%.[41]



Source: Washington, DC: Board of Governors of the Federal Reserve System, 2008

Lenders flag borrower characteristics like low credit scores and high debt-to-income ratios as indicators of risk, meaning these borrowers will likely be offered high-cost loan products—if they are extended credit at all. This means that Black and Latino households are denied mortgages with greater frequency or are offered unaffordable interest rates more often than White households. In 2015, 27.4% of Black mortgage applicants and 19.2% of Hispanic applicants were denied the ability to take out a mortgage, compared with only 11% of White applicants. Approximately 23% of Black homeowners and 18% of Hispanic homeowners have mortgage interest rates of six percent or higher—the rate considered unaffordable—while only 13% of White homeowners have mortgage interest rates that high.[42]

While credit scores have always been important, the issue has gotten worse since the recent housing crisis. In the wake of the meltdown, the lending market tightened, benefitting those with higher scores to an even greater extent. The median FICO score generally required for new purchases currently stands at 736, which is 37 points higher than a decade ago. The minimum score needed to qualify for loan products overall is 650, which is higher than the floor that existed prior to the crisis, which was in the low 600s (FICO scores range from 300 to 850).[43] While assessing risk is a normal, necessary part of lender underwriting, there is widespread evidence that households with less-than-perfect credit can successfully pay back their loans when those loans have appropriate safeguards and are without exorbitant costs. One study comparing the default rates between Community Reinvestment Act (CRA) loans and subprime loans showed that loans for subprime borrowers with similar risk profiles resulted in a 70% higher default rate.[44]

THE COMMUNITY REINVESTMENT ACT

The CRA is a regulation enacted in the late 1970s that applies to financial institutions and was meant to counteract redlining practices by encouraging banks to extend credit to low- and moderate-income households beyond the traditional rates. The difference between CRA loans and subprime loans are that CRA loans are less costly on a number of fronts (interest rates, fees, the existence of balloon payments, etc.), increasing the likelihood of ongoing payment and decreasing foreclosure risk. The subprime products that flooded the market leading up to the 2008 crisis were rife with prepayment penalties, high interest rates and balloon payments that ultimately made many of them unaffordable, resulting in high default rates, widespread foreclosures and a rash of underwater mortgages, particularly for the low- and moderate-income households that were disproportionately targeted. These subprime loans were also often issued by organizations that were not certified financial institutions, which allowed them to operate outside the purview of the CRA.

A study like this undercuts the narrative that borrowers considered risky by typical underwriting guidelines have higher default rates because they are risky investments. Rather, it shows that some blame should be placed on lenders that offer high-cost loans with predatory structures and terms. In response to these unscrupulous lending practices, CRA loans are deliberately constructed to be affordable to low- and moderate-income borrowers.

To compound the problem, the most popular scoring models developed by the three main credit reporting agencies (Experian, Equifax and TransUnion) do not consider certain payment behaviors that indicate an ability to repay and that would help Black and Latino households build credit. These traditional models rely heavily on credit card and other standard loan product repayment histories to measure creditworthiness, rather than non-traditional expenses that are much more commonly part of the monthly household expenses of low- and moderate-income families.

Some examples of nontraditional expenses that benefit low- and moderate-income households if reported include ongoing utility, phone and rental payments. There is promising research on the value of reporting these cyclical expenses that can be replicated and built upon to develop the most innovative scoring models possible.[45] This research includes the "Power of Rent Reporting" pilot launched by Credit Builders Alliance and Citi Foundation. The pilot revealed that reporting on-time rent payments not only improved credit scores for participants, but also increased the likelihood of on-time payments.[46] The three major credit bureaus include rental payments in credit reports if they receive that data, but landlords and management companies rarely take advantage of this opportunity and instead decline to report these payments.[47]

The credit bureaus and other mainstream actors in the credit reporting industry have begun to take several positive steps by developing products like FICO XD and VantageScore 3.0 that include some of the alternative data referenced above. They are more inclusive than older scoring models and do not significantly compromise lender safety and soundness. However, at least for the time being, their uptake by lenders remains limited.

One major obstacle to the use of modernized credit scores with alternative data is the policy and procedures of the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac are financial institutions chartered by Congress that were established to increase the availability of credit to borrowers by purchasing loans originated by other lenders, increasing liquidity so more loans can be made.

Crucially, these entities incent the use of credit scoring models that are at least a decade old and include credit reporting biases. The GSEs guarantee more than half of the mortgages in the country, and both have seller-service guidelines that spell out GSE preferences for the types of loans eligible for GSE purchase. For certain types of loans, these guidelines explicitly endorse traditional Equifax and FICO scores.[48]This puts loans underwritten with different scoring models at a disadvantage. Fannie Mae and Freddie Mac have such a significant impact on the mortgage market that the scoring models they choose profoundly impact the models lenders are willing to use for their underwriting.

Aggressive marketing of subprime products. As briefly mentioned above, part of the reason Black and Latino communities were hit harder by the 2008 housing market collapse was due to the fact that they were the target of highly exploitative predatory lending practices. Subprime products with high interest rates and balloon payments were marketed to Blacks and Latinos with much greater frequency than their White counterparts.[49] Indeed, there is strong evidence that subprime loans were systematically marketed to these communities using ploys like "teaser" rates, failing to clearly disclose long-term interest rates, and other misleading or outright fraudulent practices.[50]

Disproportionately steering non-White borrowers to these products even induced many Black and Latino families that were eligible for prime credit to take out subprime loans. One study found that as many as half of these households that had subprime loans actually qualified for safer mortgages.[51] In short, these subprime products impacted Black and Latino households with poor or non-existent credit, as well as those with scores that were healthy enough to be eligible for more favorable loan terms, which only served to further weaken credit scores and wealth-building capacity for these households.

According to the 2016 *State of Housing in Black America* report, the number of Black applicants for conventional loans decreased by a whopping 82% from 2004-2014, while nonconventional loan applications skyrocketed by 60% during this same period. By 2014, 68% of Black applicants applied for nonconventional loans—an increase of 54% from a decade ago. Meanwhile, only three percent of conventional loans originated in 2014 went to Black households, compared to 73% for White households in the same year.[52] While the reasons for this shift are not exclusively the result of aggressive and misleading loan steering—limited options due to compromised credit, limited access to mainstream banks, ongoing discrimination and other factors also played a role—these marketing patterns were unquestionably part of the problem.

The number of Black applicants for conventional loans decreased by a whopping 82% from 2004-2014, while nonconventional loan applications skyrocketed by 60% during this same period.

One positive development since the financial meltdown in 2008 was the establishment of the Consumer Financial Protection Bureau (CFPB). The CFPB was created to curb the excessive marketing of subprime lending and other unsafe products and practices that led to the financial crisis. Tasked with protecting consumers from "unfair, deceptive or abusive acts and practices and from discrimination," the Bureau has honored this mission in a number of ways.

Accomplishments include adoption of the Ability to Repay (ATR) rule and the Home Mortgage Disclosure Act (HMDA) regulation. The ATR rule is aimed at reining in some of the worst mortgage lending abuses responsible for triggering the recent housing crisis. This rule requires an assessment of a consumer's ability to repay a loan and establishes clear income verification guidelines. HMDA requires lenders to disclose information about the loans they make, and the CFPB regulation enhances reporting requirements and improves the ability to identify fair lending abuses. Moreover, in 2015 alone, the Bureau returned close to $150 million to consumers from mortgage-related enforcement actions, and levied more than $50 million in civil penalties.[53]

The Bureau has also launched a state of the art consumer complaint database that allows consumers to directly engage with the Bureau to receive help in addressing problems with financial institutions. And they have a strong consumer engagement function that connects Americans, particularly those from financially vulnerable classes like underserved Blacks and Latinos, with important financial education materials along with resources on how to avoid predatory financial products and actors.

Fortunately, credit reporting is also on a list of near-term priorities for the CFPB.[54] In 2016, the Bureau explicitly expressed its interest in not only improving credit reporting accuracy, but also in making the reporting process "inclusive of more consumers." The Bureau has released a number of reports on various aspects of the credit reporting industry, including an influential report that discovered 26 million consumers in this country have no credit reports whatsoever (or who fall into the category termed by the Bureau as "credit invisible").[55]

Reduced access to mainstream banking institutions. One of the reasons that Blacks and Latinos are more vulnerable to exploitative products like subprime loans and high-cost, small-dollar lending is because they have less access to mainstream banks than White consumers. According to the Federal Deposit Insurance Corporation, in 2015 the percentage of Black households with no checking or savings accounts—the "unbanked"—was 18.2%, while the rate for Hispanic households was 16.2%. Both of these rates are much higher than the 3.1% unbanked rate among White households. Underbanked rates—households with mainstream checking or savings accounts that nevertheless rely on alternative products like payday, auto title or pawn shop loans—for Black households was 31.1% in 2015, while Hispanics were slightly lower at 29.3%. Meanwhile, White households in 2015 were underbanked at a rate of 15.6%.[56] Furthermore, as was mentioned previously, some of the worst subprime mortgage products before the financial crisis came from non-banks, rather than from financial institutions like banks or credit unions, which are governed by the CRA.

Whether unbanked or underbanked, less contact with mainstream financial institutions means Black and Latino households are less able to access safer mortgage products with affordable terms.

Fortunately, through the financing of community development projects in underserved areas and other activities, entities like community development financial institutions (CDFIs) are able to offer these communities loan products with terms and conditions that are usually reserved for prime borrowers at mainstream institutions. Certified by the U.S. Department of the Treasury, CDFIs exist to provide financial services to consumers who are typically underserved by mainstream financial institutions, like low-income and minority households, and they make good on their mission. Between 65 and 90% of CDFI lending activity is for these underserved communities.[57]

CDFIs are driven by mission, provide more individualized customer service by building relationships and trust, and take into account a borrower's ability to repay. Many CDFIs manage to keep default rates relatively low—meaning their low-income customers are often able to honor their commitments—which they do without sacrificing performance or failing with greater frequency than mainstream banks.[58]

Moreover, while mainstream community development lending contracted after the recession, lending from CDFIs did not slow down, and in fact grew exponentially during this period.[59] It is telling that about one-third of the home loans made in the Mississippi Delta, one of the poorest areas of the country with some of the highest concentrations of Black households, are by local CDFIs.[60]

That said, there are not enough of these institutions to reach all underserved communities, and the CDFIs that do exist are limited by their capacity (how much money they have to loan and how many staff they have to run their operations). This means there are still a number of communities with no meaningful banking presence, particularly areas with higher concentrations of low-income and minority households. To address this challenge, CDFIs need further support, but banks can also be part of the solution and should do more to include Black and Latino households within their customer bases.

Ongoing discrimination. The impact of the government-endorsed redlining that took place during the early and middle part of the 20th century is reflected in the data on racial segregation and who received government-backed loans presented earlier. Unfortunately, discrimination in the housing market became so entrenched by these practices that they persisted in some form and to some degree even after they were outlawed in 1968 with passage of the Fair Housing Act.

Since the late 1970s, the Department of Housing and Urban Development (HUD) has conducted a series of audits that measure the level of discrimination in the housing market, and the numbers from as recently as 2012 indicate that discriminatory practices are alive and well. For this study, more than 8,000 matched pair tests were conducted in a nationally representative sample of 28 metropolitan areas. Matched pairs are two people who differ only by their race that contact or visit the same real estate agents to inquire about listings and availabilities. Evidence from the study shows that Black families looking to buy a home were told about and shown 17-18% fewer homes than Whites, and Blacks were also denied appointments more often than Whites.[61]

With this said, while the Fair Housing Act has not put a complete halt to discrimination, it is still a landmark piece of legislation. Enforced by HUD and the Department of Justice, the Fair Housing Act outlaws discrimination in housing market sales and financing. This means lenders, owners, financiers and anyone else who controls whether someone can buy or rent a particular property cannot base their decision to accept or reject an applicant solely on their race (or any other protected class). The Fair Housing Act also places a duty to "affirmatively further" fair housing, which helps communities become more inclusive by proactively fostering less segregated neighborhoods with fewer barriers to access for Black and Latino households.

HUD adopted regulations in 2015 that help communities satisfy the duty to affirmatively further fair housing, which includes the development of a housing landscape assessment and the establishment of fair housing benchmarks. This piece of the Act has the potential to significantly reduce segregation along racial lines that confines Black and Latino households to less desirable neighborhoods or makes their homes less valuable than properties located in areas of higher demand, as well as establishing fairness in a variety of other ways.

Policy Solutions that Will Help Close the Racial Home Equity Gap

The racial wealth divide in homeownership has its roots in the past and is being perpetuated by several practices still today, but there are key steps that federal policymakers can take that would have a sizeable impact on remedying these issues and making measurable progress on closing the divide. In some cases, progress will require the introduction of new programs, but in others, positive solutions are already in place and policymakers need either to commit to ensuring that proven practices continue to work, or to expanding on those practices to bring their impact to scale.

The categories of federal policy solutions identified in this report fall into three categories:

- Reforms to homeownership provisions in the federal income tax code
- Increased access to quality mortgage credit
- Protections against predatory lending and fair housing discrimination.

Within each of these categories are specific recommendations that either Congress or the Administration can take to actively commit the federal government to the important goal of creating more equity in homeownership rates and wealth for households of color in America.

Reform the Federal Income Tax Code to Expand Successful Homeownership

Congress should reinstate the First-Time Homebuyer Tax Credit and make it permanent. From 2008 to 2011, the federal government created a temporary First-Time Homebuyer Tax Credit that was successful in helping more low- and moderate-income households become homeowners.[62] In fact, the credit disproportionately benefited less costly homes because it accounted for a greater share of the sales prices of those homes (the maximum benefit was $8,000 in 2009),[63] and there is evidence the credit was taken advantage of by people making less than $100,000 annually. There was also greater parity in terms of benefits received between high- and low-wage earners.[64] A similar First-Time Homebuyer program in the District of Columbia that existed prior to 2012 turned tens of thousands of low- and moderate-income families into homeowners, while helping lower-valued homes experience greater levels of appreciation than more expensive homes on the market.[65]

Creating a similar tax credit and making it permanent would be a positive first step. However, the design of the credit is crucial if it is going to truly help close the racial wealth divide in homeownership. For example, if there was no income limit on claiming the credit, the benefits could disproportionately go to higher-income households and White households instead of communities of color. An ideal design would limit the benefits to low- and moderate-income households or even go one step further and have the greatest benefits go to the lowest-income households and slowly phase out these benefits as income increases.

In addition, to help gauge the potential for impact, any proposal should be evaluated using the Racial Wealth Audit tool, created by the Institute on Assets and Social Policy at Brandeis University and Demos. This measurement tool analyzes alternative proposals, revealing which policy recommendations are most likely to be effective. This allows decision-makers to fine-tune the policymaking process, ensuring the program structure ultimately adopted has the greatest potential to decrease the racial homeownership divide.

This proposal and others could be funded in a revenue-neutral manner by reforming existing homeownership tax programs such as the Mortgage Interest Deduction and the Real Estate Tax Deduction. As mentioned earlier, in 2016, these two deductions alone cost the federal government $118 billion in revenue. The foundation of CFED's Turn It Right Side Up campaign is that these programs are "upside down," meaning they provide vastly greater benefits to the wealthy than to middle- and lower-income households.[66] As discussed earlier, these programs do nothing to directly support homeownership and instead are designed to support mortgage debt and encourage the purchase of more expensive or multiple homes, while their design as deductions instead of credits also excludes low- and moderate-income households and many households of color from being able to claim them.

Congress should create a matched-savings program for downpayments. Even if a first-time homebuyer tax credit is introduced, households of color would not receive any of the benefits until after they purchase a home, and it can be difficult for many of them to cover the expensive upfront costs of homeownership, especially a downpayment. To address this problem, Congress should introduce a program that matches the savings of low- and moderate-income households who are saving for the purpose of purchasing a home. An account, such as a Roth IRA or an Individual Development Account could serve as a platform for facilitating this program. Congress should look closely at lessons learned from the Assets for Independence program, which was enacted in 1998 and has helped thousands of low-income families across the country save for asset-building purposes, including purchasing a home.

As with the first-time homebuyer tax credit, in order to ensure this proposal would actually make meaningful progress in closing the racial wealth divide, it would have to be limited to low- and moderate-income households and the design of the program should be informed by a tool like the Racial Wealth Audit. This program also could be funded through cost savings from reforms to existing homeownership tax programs like the Mortgage Interest Deduction and the Real Estate Tax Deduction.

Congress should create a refundable homeowners tax credit. Even after a low-income family has successfully saved for their downpayment and purchased a home, there are still many other financial risks that can threaten their long-term success as a homeowner. These risks are particularly prevalent in the first few years of homeownership when personal savings and equity are low. If a major household expense occurred, like the need for a new roof or furnace—or another major expense like personal illness—a family easily can fall behind on their mortgage payments and risk foreclosure.

To help prevent problems like these from threatening successful homeownership, a refundable homeowner tax credit should be introduced. If the benefit is established as a refundable credit, it will be accessible to low- and moderate-income households, unlike a deduction. If the amount of the benefit is also scaled to phase out as income rises, it could provide the greatest impact for reducing the racial wealth divide. A credit like this could serve as a replacement for the Mortgage Interest Deduction and the Real Estate Tax Deduction.

Increase Access to Quality Mortgage Credit

Preserve and expand the role of the government-sponsored enterprises (GSEs) in serving households of color. Historically, Fannie Mae and Freddie Mac (the GSEs) have been critical to ensuring housing credit affordability and availability. They have affordable housing goals that spell out the number of low-income single- or multi-family loans that they are expected to support through various initiatives. In addition, the GSEs have a "Duty to Serve" underserved credit markets, which includes manufactured housing, affordable housing preservation and rural housing. These are important obligations that benefit low-income households, particularly communities of color.

The GSEs are currently under conservatorship, which means they operate under the strict supervision of the Federal Housing Finance Agency (FHFA). Proposals and statements made by various members of the new Administration and Congress suggest the government will take steps either to privatize the GSEs or dismantle them entirely, though it is unclear exactly how this would happen or what proposals the congressional majority will put forth on housing finance reform.

If reform of the housing finance system takes place, the FHFA and Congress should retain these affordability goals and Duty to Serve obligations, along with securing a mission to serve and support underserved markets, rather than letting such restructuring or dismantling lead to the elimination of these important tools. These tools increase access to credit for qualified families and communities—especially among communities of color that have been excluded for far too long—making it easier for them to become homeowners on more affordable terms. If GSE restructuring does not ensure the fair access to credit and homeownership affordability created by these types of goals and obligations, the impact on housing affordability and homeownership would be significant.

Furthermore, the new Administration and Congress should require the leadership of the FHFA and other agencies to be vigilant in holding entities accountable for honoring these goals and obligations through enforcement actions, rather than ignoring complaints and refusing to investigate alleged misconduct.

Congress should expand the CDFI Fund and create a program focused on increasing minority homeownership. As already discussed, financing entities like community development financial institutions (CDFIs) are primarily driven by mission rather than by profit, providing financial services for communities that mainstream banks cannot or will not help, including many households of color. Any serious efforts to address the racial wealth divide should recognize the value of CDFIs and make sure they are a meaningful part of the solution.

One of the reasons that CDFIs are able to serve these markets is because of the CDFI Fund. Established by the U.S. Department of the Treasury in 1994, the CDFI Fund offers a variety of financial and technical assistance grants and programs that help CDFIs do their work. In 2015, the Fund was appropriated $230.5 million, and President

Obama's 2016 budget requests $233.5 million, or a $3 million increase.[67] In order to serve as many low-income and minority borrowers, the Administration should request and Congress should appropriate the $233.5 million to the CDFI Fund proposed in Obama's budget. Furthermore, the additional $3 million should be used to fund a new program for CDFIs that would provide mortgages to low-income residents in predominantly minority communities.

The Administration should create a new program to expand CDFI presence in communities of color. While the CDFI market has expanded over time, there are still low-income and minority communities that do not have access to any banking facilities. The CDFI Fund has some financial and capacity-building programs already on the books geared toward expanding CDFI coverage, but a more strategic program is needed that deliberately promotes CDFI creation in communities of color that remain underserved. The program would empower the CDFI Fund and hold them accountable for making meaningful progress in increasing access to quality mortgage credit in these communities by promoting the development of new CDFIs.

The Consumer Financial Protection Bureau (CFPB) should encourage the adoption of alternative credit scoring models. As discussed earlier, credit scores are one of the cornerstones of the mortgage lending industry, and households of color tend to have more compromised credit histories.

To help improve access to credit for many of these households, alternative data should be incorporated into the credit scoring process. Financial institutions are often unsure about what types of alternative data would be allowed for these uses and under what conditions given guidelines laid out under the Fair Credit Reporting Act (FCRA). The CFPB has regulatory authority over FCRA and should provide guidance on exactly how financial institutions can use certain types of alternative data to develop new credit scores and underwrite mortgage lending. This guidance would help quell any concerns about allowable practices and make it easier for financial institutions to adopt new credit scoring models and serve more households of color.

The GSEs should promote more inclusive credit scoring models. As mentioned before, GSE guidelines encourage the use of outdated scoring models. If they started endorsing new, innovative credit scoring models that are more inclusive of low-income minority consumers, such changes would encourage private players to follow suit, which would have a significant effect on access to credit for these underserved households. Fortunately, they have already started to explore the use of alternative models, and the FHFA prioritized concluding this assessment in 2017 in their Scorecard for Fannie Mae and Freddie Mac.[68]

To make sure this assessment is completed in 2017, the FHFA should use its authority to require the GSEs to honor the Scorecard. The FHFA should also require the GSEs to take affirmative steps to incorporate what they learn from this assessment into their credit scoring guidelines. That is, if the assessment provides strong evidence that certain models are more inclusive without compromising consumer safety and soundness, these new models should be promoted in the seller guidelines. There should also be routine revisions of these guidelines that reflect the latest advances in credit scoring inclusivity.

Congress should pass legislation promoting alternative credit reporting. There are several efforts at the federal level to promote alternative credit reporting. In 2015, HR 3035 was introduced, which would support the reporting of rent-, utility- and phone-related payments to the consumer reporting agencies.[69] As mentioned earlier, when reported, these expenses help build credit for low-income households, which would predominantly benefit households of color. This bill complements the recommendation above about directing the Consumer Financial Protection Bureau to provide guidance on how financial institutions can use alternative data. Also in 2015, HR 4211 was introduced, which would encourage the adoption of additional scoring models by the GSEs. A bill like this would help end GSE reliance on outdated scoring models.[70] Congress should support these bills and any other legislation that supports credit building for underserved households.

Protect Against Predatory Lending and Discrimination

Congress should preserve the mission and independence of the Consumer Financial Protection Bureau (CFPB). The CFPB has played a crucial role in addressing consumer protection issues related to homeownership and many other financial services and products. As mentioned earlier, regulations like the Ability to Repay (ATR) rule and the Home Mortgage Disclosure Act (HMDA), as well as the enforcement actions taken against exploitative mortgage practices, are important examples of this work.

Congress should keep the CFPB's structure intact. Despite the Bureau's accomplishments, several members of Congress and the new Administration have either called for changes to the CFPB that would weaken its ability to continue its work, or have called for directly undoing the important regulations it has enacted. There have also been calls to change the leadership structure of the Bureau from a single director to a commission that would make it more like the Securities and Exchange Commission (SEC) or the Federal Deposit Insurance Corporation. The single-director structure is similar to that of the Office of the Comptroller of the Currency and the Federal Housing Finance Authority, so it is not without precedent in the financial regulatory space as many have claimed. More importantly, shifting to a commission structure would slow the ability of the agency to take appropriate actions to protect consumers and would make the agency vulnerable to partisan political influences through the appointment process. This has been the case with the SEC and the Federal Trade Commission, both of which have been unable to pass important regulatory matters due to the partisan political positions of their members.

For example, the SEC currently has only two commissioners because hearings for replacements are slow-going, and the rulemaking process is hampered by the opposing political views of the remaining commissioners.[71] Indeed, as recently as the summer of 2015, the agency was roundly criticized for failing to pass core Dodd-Frank rulemaking and for lagging behind other agencies.[72]

Additionally, there have been several legal actions around the structure and authority of the Bureau, including one from the United States Court of Appeals for the District of Columbia Circuit that would allow the President to replace the Director at will. Currently, the Director is appointed by the President for a five-year term and can only be removed for cause. Changing this threshold for removal—similar to changing the structure of the Bureau—would greatly threaten its independence and ability to carry out its mission independent from partisan politics.

Congress should maintain the CFPB's independent funding. There have been several calls to shift the funding for the Bureau from the Board of Governors of the Federal Reserve System to the Congressional appropriations process. This is a problem because the Bureau's independent funding is a critical strength that was deliberately built into the agency's structure to shield it from shifting political climates. Like with changing the leadership structure, allowing Congress to dictate the Bureau's funding would allow partisan political forces to starve the Bureau of funding or single out particular projects or offices for cuts, any of which would greatly impede important consumer protection work and the Bureau's independence to do what is sometimes unpopular but necessary work. Congress has already taken similar actions with other agencies, such as the Internal Revenue Service and the SEC, and these actions have greatly hampered the effectiveness of these agencies.

Additionally, the CFPB has helped to fundamentally transform the mortgage industry for the better over the last five years. Nonetheless, the Bureau's work is far from done in this area, particularly for low- and moderate-income and minority communities that face the steepest barriers to safe and affordable homeownership. Congress should not impede the Bureau's ability to continue this work; if they do, the racial wealth divide in homeownership for households of color will continue to widen, accompanied by a rise in predatory lending and a decline in the number of homeowners who lay claim to safe, affordable mortgages.

The Administration should preserve the Fair Housing Act and continue vigorous enforcement of standards. An important part of the fight against racial housing inequity is anti-discrimination legislation like the Fair

Housing Act. To reduce discrimination, the core elements of this law should not be repealed and it should receive proper enforcement. Regulations are ineffective if they are not adequately enforced.

Congress should preserve the duty to Affirmatively Further Fair Housing. As already discussed, the Fair Housing Act includes an obligation to "affirmatively further" fair housing, which places an obligation on communities that receive HUD funding to proactively find ways to reduce racial segregation and increase housing fairness. The problems created by excessive segregation include blows to asset building opportunities. Confining households of color to particular areas that tend to be weaker markets (lower demand) with higher levels of poverty reduce the opportunity to build wealth through homeownership because the rates of appreciation in these communities are significantly lower (consider the data presented earlier about appreciation rates).

There is some movement in the 115th Congress and the Trump Administration to weaken or overturn the 2015 HUD rulemaking on Affirmatively Furthering Fair Housing. The aim of this legislation is to reverse much of the damage that was caused by years of public, private, explicit and implicit discrimination that racially segregated the landscape and disenfranchised households of color. This is a worthy goal, and Congress should not go forward with any plans to repeal this rulemaking.

Active Enforcement of Fair Housing Laws is Extremely Important. Federal agencies like the U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Justice (DOJ), which are responsible for enforcing the Fair Housing Act, successfully prosecute housing discrimination complaints each year. In 2015, HUD and the state and local organizations that assist the agency completed more than 8,000 investigations of discriminatory practices and secured more than $220 million in monetary relief.[73] Actions include attempts to deny fair access to credit for Black applicants, including a recent complaint filed against a bank in Memphis that is accused of denying Black applicants mortgage loans and setting up branches in Black neighborhoods but only marketing services to customers outside these locations.[74] Despite these prosecutions, more needs to be done. Some estimates suggest the number of discriminatory acts that take place each year are in the millions, while the number of actual complaints filed by HUD and others is significantly smaller.[75] Examples include reports of systematic discrimination by Clayton Homes, a huge player in the manufactured housing lending market, which have yet to be investigated.[76]

Enforcement agencies should be taking steps to increase the number of investigations that are made each year, not reducing them. Unfortunately, agencies like HUD and DOJ are vulnerable to funding cuts through appropriations and internal decisions over which complaints should be investigated. There have been proposals from the Administration and Congress to cut discretionary spending by all agencies that would make it harder to fund enforcement.[77] The new leadership for these agencies could also deprioritize enforcement of these rules. While more should be done, the negative consequences of going backward and doing less would have significant consequences for households of color, and for the racial wealth divide.

Conclusion

In America, a home is the most valuable asset that most families will ever own. This is true whether the household is White, Black, Latino or any other race. Yet since the beginning of modern homeownership financing, government at all levels, the private sector and communities have colluded to perpetuate discrimination that has made it difficult and sometimes impossible for Black and Latino households to join the ranks of homeowners. This not only denies these families' access to the American Dream, but it also prohibits their access to one of the most powerful wealth-building mechanisms that exists. Until this is remedied, substantial progress in closing the racial wealth divide in this country will remain out of reach.

The worst of these discriminatory practices, such as redlining, are fortunately in the past, but their strong influence still lingers. The federal government has recently taken several positive steps to increase access to quality mortgage credit for Black and Latino households. There are also significant gains that have been made in the fight against predatory lending and fair housing discrimination. However, much more needs to be done to close the racial wealth divide, especially in light of attempts by the new Congress and Administration to roll back the protections established by their predecessors. Creating new tax provisions to promote and support homeownership, bolstering the ability of CDFIs to lend to more borrowers, and providing for entities like the GSEs and the CFPB to help sustain affordable homeownership would be high-impact, low-cost steps that support homeownership for Black and Latino families, and puts them on the path to greater wealth equality.

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