HOMEOWNERSHIP, WITH STRINGS ATTACHED

IN THE POST-WAR YEARS, MILLIONS OF WHITE AMERICANS BUILT WEALTH THROUGH HOME EQUITY, AIDED BY GOVERNMENT-RUN HOMEOWNERSHIP ASSISTANCE PROGRAMS. PEOPLE OF COLOR, HOWEVER, WERE LARGELY DENIED THAT OPPORTUNITY.

Many homeownership assistance programs are geared towards low- to moderate-income homebuyers, promising access to home equity and wealth-building for the people who need it most. In practice, however, these programs often contain fees and restrictions that undermine the program’s purpose, and these conditions can increase the cost of buying and maintaining a home. By moving to a “no strings attached” model of homeownership assistance, we can ensure that these programs do not perpetuate the inequities they were created to undo.

Traditionally, homeownership has been an important way to build wealth in the United States as homebuyers benefit from increased equity and financial stability. But for centuries, Black Americans and other people of color have been denied the ability to purchase homes in most neighborhoods.

The practice of redlining, once widely adopted by lenders, color-coded neighborhoods based on race to indicate where it was safe to insure mortgages. Majority Black neighborhoods were colored in red to signal that these areas were too risky to insure.
HOMEOWNERSHIP, WITH STRINGS ATTACHED (CONTINUED)

TODAY, THE FAIR HOUSING ACT OF 1968 PROTECTS AGAINST DISCRIMINATION BASED ON RACE, GENDER, AND OTHER PROTECTED CLASSES. EVEN STILL, RACIAL INEQUITIES IN HOMEOWNERSHIP PERSIST — WHICH CONTRIBUTE TO THE RACIAL WEALTH GAP.

In the summer of 2020, a mixed-race couple in Jacksonville, Florida shed light on how subconscious ideas about race fuel continued discrimination in housing. After receiving a home appraisal that was surprisingly low, this couple decided to conduct their own discrimination test. They removed all traces of Blackness from their home and attempted another appraisal.

For the second appraisal, the couple removed family photographs with Black family members, books and movies by Black artists, and hung up oil paintings on the wall. During the second appraisal, only the husband, who is white, was present. After removing all indicators that this home belonged to a mixed-race family, the home appraisal came back 41% higher than the original amount.

The same New York Times article that broke the Jacksonville story featured a similar discrimination test conducted by a Black resident of a Hartford, Connecticut suburb, who saw his home value increase by $40,000 after removing family photos and having a white friend stand in for him at the appraisal.

“My heart kind of broke ... In the Black community, it’s just common knowledge that you take your pictures down when you’re selling the house. But I didn’t think I had to worry about that with an appraisal.”

-Abena Horton, homeowner and victim of housing discrimination
Decades of intentional and subconscious racism have widened the wealth gap between white and Black Americans: Today Black incomes on average are about 60 percent of average white incomes. But Black wealth is approximately 5 percent of white wealth.\(^2\) The wealth gap, in part, can be attributed to decades of being intentionally excluded from the advantages of home ownership. This is why we need homeownership assistance programs that purposefully boost the purchasing power of people of color and make homes more affordable for them now through grants and other incentives.

Homeownership assistance programs are run by federal, state, and local governments, non-profit organizations and large employers like colleges and hospitals. These programs aim to remove major barriers for potential homebuyers who can make monthly mortgage payments but have not been able to save the minimum amount needed for a down payment or have poor credit scores. In an environment where the average down payment for first time homebuyers is only 7% of total purchase price, and racial disparities in credit scores negatively affect people of color, these programs are critical to expanding homeownership opportunities for people of color and low-to-moderate income people.\(^3\)

Without intentional intervention, it is clear that we will continue to see inequities and discrimination in housing. The effects of segregationist policies that prohibited people of color from buying homes in the suburbs and building equity did not disappear when the law made discrimination illegal.
THE RACIAL GAP IN WEALTH AND HOMEOWNERSHIP (CONTINUED)

In 2020, the median household income for Black families ($41,692) was 59 percent of the median household income for white families ($70,742).

Homeownership is a key path to building wealth. Primary residences account for 30 percent of all household wealth in America.

However, the net worth of the typical Black family ($17,150) is only 10 percent that of the typical white family ($171,000).

Just 41.8 percent of Black families own homes, compared to 71.9 percent of white families. In the last ten years, the homeownership gap has widened further.
WHAT ARE STRINGS ATTACHED?

Many homeownership programs contain restrictions that undermine the program’s purpose and restrict economic mobility and wealth-building for the people who need it most.

A closer look at homeownership programs reveals that the fees and conditions attached to these grants and loans restrict upward mobility for program users by increasing monthly mortgage costs and restricting individual choice. The number of “strings attached” outweigh the program benefits.

These “strings attached” include private mortgage insurance (PMI), interest-bearing loans, a minimum on years of occupancy, and restrictions on the use of home equity lines of credit.

Private mortgage insurance is the most common condition attached to mortgage products used by low- to moderate-income homebuyers. It protects the lender from a loss in the event that a borrower defaults on their mortgage, and it is applied to both conventional loans and Federal Housing Administration (FHA) loans if the borrower does not provide a down payment of at least 20% of the total purchase price.

FHA loans, in particular, are popular with lower income buyers because they are easier to qualify for: With a credit score of just 580, borrowers only need 3.5% of the purchase price for a down payment. Conventional loans require higher credit scores and savings in order to allow for lower down payments.

WHY DO CREDIT SCORES MATTER?

Numerous studies have shown that there is a significant disparity in credit scores between white Americans and Black/Latino Americans.

A 2010 study by the Woodstock Institute found that, in predominantly white zip codes in the state of Illinois, 67.3% of residents had a credit score over 700, while only 25% of residents in predominantly Black zip codes and 47.3% of residents in predominantly Latino zip codes had credit scores greater than 700.

Homeownership programs intended to advance equity need to acknowledge the racial disparity in credit scores, and work to counteract this disparity.
WHAT ARE STRINGS ATTACHED? (CONTINUED)

COMPARING CONVENTIONAL LOANS TO FHA LOANS

CONVENTIONAL LOANS

• Minimum credit score of 620
• Down payments as low as 3%
• If downpayment is less than 20%, you may be required to pay Private Mortgage Insurance (PMI)
• Private Mortgage Insurance is removed once you reach 20% equity in the home
• Private Mortgage Insurance is paid monthly, no upfront PMI

FHA LOANS

• Minimum credit score of 580
• Down payments as low as 3.5%
• Popular option for homebuyers who don’t qualify for conventional loans, mortgage insurance is always required
• For downpayment of 10% or more, mortgage insurance is required for 11 years
• For downpayment of 10% or less, mortgage insurance is for the life of the loan
• Mortgage insurance is paid monthly, plus an upfront mortgage insurance fee

THE EFFECTS OF STRINGS ATTACHED

Unlike conventional loans, borrowers using FHA loans are required to pay both an upfront mortgage insurance premium and a monthly premium. If you chose to finance the premium as part of your mortgage, you will pay interest on it over time. Regardless of how much equity is built in the home, buyers must pay the insurance for at least 11 years if the downpayment is less than 10%.

Even though FHA loans are easier to qualify for, private mortgage insurance is applied in an extremely restrictive and expensive manner. Borrowers using FHA loans will pay an upfront mortgage insurance premium and a monthly premium. Ironically, those who have not been able to save tens of thousands of dollars or don’t have financial help from family are the ones who are expected to pay more monthly.

Borrowers who receive downpayment assistance may face additional restrictions. Many grants require buyers to buy homes in specific areas, live in the home for a number of years, or remain with their current employer. These strings attached hinder economic mobility, and can prevent the wealth-building that home homeownership assistance programs are meant to facilitate.
WHAT ARE STRINGS ATTACHED? (CONTINUED)

When people of color are successful in obtaining a mortgage, they are often charged higher rates than white borrowers.

In addition to federal programs, low- to moderate-income people are more likely to seek out down payment assistance and may turn to state and local grants to fund their down payment. Many state and municipal homeownership programs offer loans to cover a partial or full payment. There is usually a limit on the dollar amount of the down payment one can receive, so most of the time a 20% down payment will not be covered. In essence, program users may find themselves repaying the down payment loan and interest through a second mortgage on the home while also paying for private mortgage insurance.

People of color, who already face discrimination in housing access, suffer even greater consequences with additional loan products. A recent analysis of nearly 7 million 30-year mortgages by University of California at Berkeley researchers found that Black and Latino applicants were charged higher interest — an average of nearly 0.08% — and heavier refinance fees when compared with white borrowers. With several hundred dollars in fees and interest-bearing loans, the monthly mortgage may no longer be affordable to low-to-moderate people and people of color simply because they are using these programs.

“Averaging across the distribution of these products in the U.S., lending discrimination currently costs African-American and Latinx borrowers $765 million in extra interest per year.”

HOMEOWNERSHIP AND EQUITY: A WAY FORWARD

WITH AN UNDERSTANDING OF THE STRINGS ATTACHED TO MANY CURRENT HOMEOWNERSHIP ASSISTANCE PROGRAMS, WE CAN CREATE PROGRAMS THAT ACHIEVE THEIR STATED GOALS OF EQUITY, ECONOMIC MOBILITY, AND WEALTH-BUILDING.

There are homeownership assistance programs, such as grants, that do not contain additional financial costs to the homebuyer, but their conditions restrict individual choice and behavior. Many grant incentives that are provided by non-profits or employers have policies that require homebuyers to purchase homes only in designated areas (usually lower income areas), stay employed at that institution for a minimum number of years, and owner occupy the home for a minimum number of years.

Undoubtedly, there are low- to moderate-income people who use and benefit greatly from this exchange, but only if they can and want to satisfy these requirements. The requirements restrict the user’s ability to pursue higher paying jobs at different companies or purchase a home in higher income and higher opportunity areas. They are even at risk of paying back the grant amount if they move before the minimum occupancy requirement. The conditions deny program users the flexibility and freedom to make choices that may benefit them financially. These programs may even perpetuate segregation by encouraging buyers, who are mostly likely low- to moderate-income, to purchase homes in segregated and low-income areas.

Breaking the cycle of poverty starts with providing choices that empower individuals to gain financial independence and build generational wealth. Most middle-class families in this country gain their wealth from the equity they have in their homes. Low- to moderate-income families using many of these homeownership assistance programs are denied the financial freedom afforded to white middle class families because of these strings-attached. Wealthier homebuyers who do not need to rely on homeownership assistance have fewer constraints and less of their hard-earned money lost in interest and fees, meaning they can build equity quicker and more efficiently use their home as a building block for the future.
HOMEOWNERSHIP AND EQUITY:
A WAY FORWARD (CONTINUED)

Our current homebuying process penalizes people for being poor. Low- to moderate-income people will spend more to own their home in comparison with wealthier individuals because of the added fees and interest included in many strings-attached homeownership assistance programs.

There is no doubt that homeownership assistance programs make it possible for more people to purchase a home. These programs significantly reduce the upfront cost of owning a home, but if those same rules are also inhibiting upward mobility, we are only perpetuating the same inequalities we seek to address.

Homeownership assistance programs that serve their purpose, that is – help families build wealth and gain financial independence via owning a home should minimize the total and monthly costs of the home buyer. For low-to-moderate income people who can make monthly mortgage payments, homeownership assistance programs remove an enormous burden, and jump start their homeownership process. They can be incredibly impactful when targeted towards historically marginalized communities. Closing the gap for homeownership starts with intentional policies and programs that make homes more affordable.

A FRAMEWORK FOR EQUITABLE HOMEOWNERSHIP PROGRAMS

As lawmakers develop legislation on homeownership assistance, below are four questions they should consider:

1. Does the policy or program penalize low-to-moderate income people by charging them a fee or adding an unnecessary requirement in order to use program benefits?
2. Does the policy or program add to the users’ monthly expenses, making their monthly mortgage more expensive/ less affordable?
3. Does the policy or program restrict the users’ ability to choose where to live and where to work in a way that may hinder them from pursuing better opportunities that can lead them to financial stability?
4. Does the policy or program work to correct or undo the historical effects of systemic racism?
NOTES

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About the Author:

Thalia Giraldo earned a B.A in Sociology and Latin American Studies from Colby College and an M.A. in Public Policy from Trinity College. She continues to study and contribute to housing equity practices in Connecticut.

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