



# African Americans and Homeownership: Separate and Unequal, 1940 to 2006

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Homeownership is an integral part of the American dream. Since the 1930s, when the Federal Housing Administration (FHA) was established, the federal government has played an active role in helping the American populace achieve this aspect of the dream. As with many aspects of the American dream, however, the vision that is realized by blacks or African Americans differs from that achieved by other Americans. In particular, the gap between homeownership rates among white households and African American households (of all income groups combined) has exceeded 20 percentage points every year since 1940. This gap remained during the post-World War II period (late 1940s through the 1950s), generally viewed as the first major homeownership growth spurt in U.S. history.<sup>1</sup> Only when ownership rates are compared for persons with incomes above 120 percent of area median income does this gap fall appreciably below 20 percentage points; the white-black homeownership gap fell to nearly 12 percentage points for these higher income households in 2001.

Since the mid-1990s federal policy in combination with a strong economy has resulted in increased homeownership rates, primarily among members of racial/ethnic subpopulations and individuals with low incomes.<sup>2</sup> Even during this period, the growth in homeownership rates has been counterbalanced by increased foreclosures and losses of ownership, many of which have occurred among individuals who received subprime mortgage loans.

This is the first of two briefs that examine homeownership among African Americans. This first brief provides an overview of the current homeownership status of African Americans, along with some relevant historical detail to place the present in context. Why homeownership has been a cherished part of the American dream, and homeownership sustainability among African Americans both are discussed. Trends in homeownership rates among African Americans and initiatives to increase homeownership also are covered in this brief. The second brief (entitled “African Americans and Homeownership: The Subprime Lending Experience, 1995

to 2007”) covers the homeownership experience of African Americans during the development and rapid growth of subprime lending.

## Why Homeownership?

Homeownership is about more than putting a roof over one’s head. As President George W. Bush noted in 2002, homeownership is “a key to upward mobility for low- and middle-income Americans. It is an anchor for families and a source of stability for communities. It serves as the foundation of many people’s financial security. And it is a source of pride for people who have worked hard to provide for their families.”<sup>3</sup> Both individuals and society benefit from homeownership. Few studies have examined these benefits by race or income, however, and post-1990 studies find that the benefits of homeownership are somewhat tenuous.<sup>4</sup> In general, research finds that homeownership contributes to greater wealth creation and accumulation and is associated with several commonly desired social, educational, and civic outcomes.

Homeownership is an important source of wealth in this country, especially for African Americans. When compared to renting, homeownership for any length of time is associated with a higher level of wealth. In addition, the longer one is a homeowner the higher the overall level of wealth accumulated.<sup>5</sup> For example, persons who have owned for 10 years can be expected to have more wealth than persons who have owned for five years.

In 2004, the median net wealth for black homeowners was \$81,581, compared to a median net wealth of \$1,810 for black renters. The median net wealth for white homeowners that year was \$213,730, while the median net wealth for white renters was \$6,200.<sup>6</sup> Although the median net wealth of black owners and white owners greatly exceed the wealth of their counterpart renters, median net wealth of whites (both homeowners and renters) is about three times that of blacks (both owners and renters), respectively.



The social benefits of homeownership are primarily seen through the outcomes and behaviors of the children of homeowners. For example, homeownership has been found to be a “highly significant predictor of educational attainment” of children (after controlling for personal characteristics, parental educational background, parental income, family size, and home value).<sup>7</sup> Children of homeowners score higher on standardized tests and are more likely to graduate from high school than the children of renters.<sup>8</sup> These findings are valid for the children of both higher- and lower-income homeowners. Children of homeowners also are less likely to drop out of high school or to become parents as teenagers.<sup>9</sup>

Homeownership has been associated with the development of strong cognitive skills (as reflected by reading recognition and math achievement). It has been associated with a reduction among children in behavioral problems (such as being argumentative and having a bad temper) and in feeling worthless.<sup>10</sup> These outcomes for children of homeowners may result in part because of the related research finding—of a statistically significant association between homeownership and a “more stimulating and emotionally supportive home environment.”<sup>11</sup> The children of homeowners are more likely to become homeowners themselves, and are likely to do so at younger ages than other adults. These patterns, in turn, contribute to social and behavioral, as well as financial, benefits for future generations.<sup>12</sup>

Civic benefits also are associated with homeownership. Homeowners are more likely than renters to participate in community organizations. They also are more likely to vote, as a result of their greater knowledge about and higher rates of participation in local politics.<sup>13</sup> Length of homeownership and income of homeowners temper these findings about civic engagement, however. When compared to higher-income homeowners and homeowners of longer duration in their neighborhoods, homeowners with the lowest income levels and homeowners of short duration are about as likely as renters to exhibit these forms of civic engagement.<sup>14</sup>

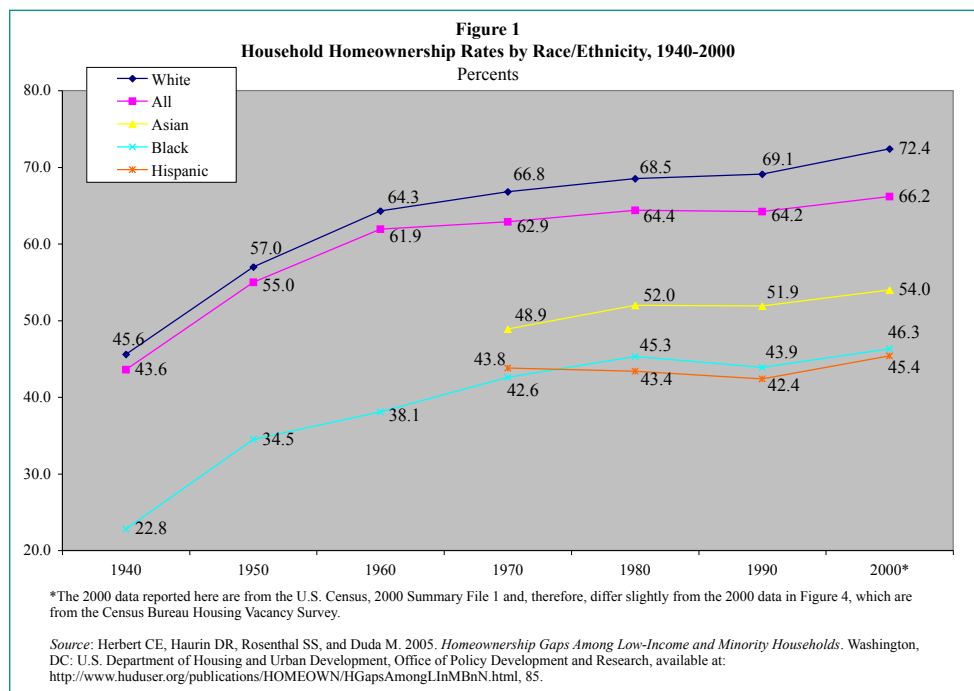
Homeownership is associated with increased neighborhood and individual stability, although the importance and value of stability may vary by neighborhood and, thus, by race/ethnicity and income.<sup>15</sup> Neighborhood stability can be undesirable if it reflects restrictions on individual mobility, as does the “decreased mobility associated with homeownership among individuals and households living in distressed neighborhoods.”<sup>16</sup> This form of stability or lack of mobility may perpetuate any social problems that already exist in such environments.

## Homeownership Sustainability Among African Americans

Home equity has traditionally constituted a large share of wealth for Americans. This has been especially true for African Americans, for whom home equity historically has constituted a larger share of net worth than for whites.<sup>17</sup> Although homeownership is a major source of wealth for African Americans, it is not a risk-free investment. Herbert and Belsky (2006) acknowledge the difficulty of determining whether households who are low-income or whose members belong to racial/ethnic subpopulations “are likely to realize financial benefits from homeownership given the complex web of factors that contribute to the outcomes...”<sup>18</sup> For example, individuals may lose money through homeownership if their mortgages are foreclosed or if they sell their homes for any reason and lose accumulated equity. African Americans are 46 percent more likely than whites to be unable to sustain homeownership.<sup>19</sup> Both high-income and low-income homeowners who are members of racial/ethnic subgroups are more likely than their high-income and low-income white peers to be unable to sustain homeownership.<sup>20</sup>

The homeownership “termination rate” (the percentage of individuals who transfer from owning to either renting, living with family, or some other living situation) for African Americans in 2000 was more than double the rate for whites (15.7 percent and 7.3 percent, respectively).<sup>21</sup> African Americans who terminate homeownership subsequently spend longer periods of time than whites as non-homeowners before becoming homeowners again. For African Americans the average period of non-homeownership following first-time homeownership is 14.4 years, compared to 10.7 years for whites.<sup>22</sup>

The differential ability of African Americans to sustain homeownership reflects many and varied historical and contemporary facts. Practices such as redlining<sup>23</sup> and steering historically accounted for the inability of African Americans to get loans and for African Americans only getting loans for properties in areas segregated by race, or for properties in such substandard condition that payment delinquency seemed a valid option.<sup>24</sup> Discrimination on the basis of race continues to permeate labor markets and influence jobs acquired, incomes earned, and, thereby, resources available for home-purchase downpayments.<sup>25</sup> Discrimination in the mortgage loan acquisition process continued to plague African American borrowers so much so that the growing subprime market—in which higher-cost loans are made to persons with less-than-perfect credit histories—initially was viewed by many as a welcome source for access to mortgage credit and homeownership.



One reason that African Americans have been unable to sustain homeownership in recent years is the disproportionate impact of predatory lending on them. Predatory lending is most commonly (although not only) found in the subprime mortgage market and thus has become more prevalent as this market has grown (i.e., since the mid-1990s). Predatory lending is difficult to define because the term can encompass a wide range of abusive practices. These practices generally fall under four categories: lending money without regard to a borrower's ability to repay the loan, excessive fees, loan flipping<sup>26</sup>, and outright fraud.<sup>27</sup> (See Brief #2, "African Americans and Homeownership: The Subprime Lending Experience, 1995 to 2007.")

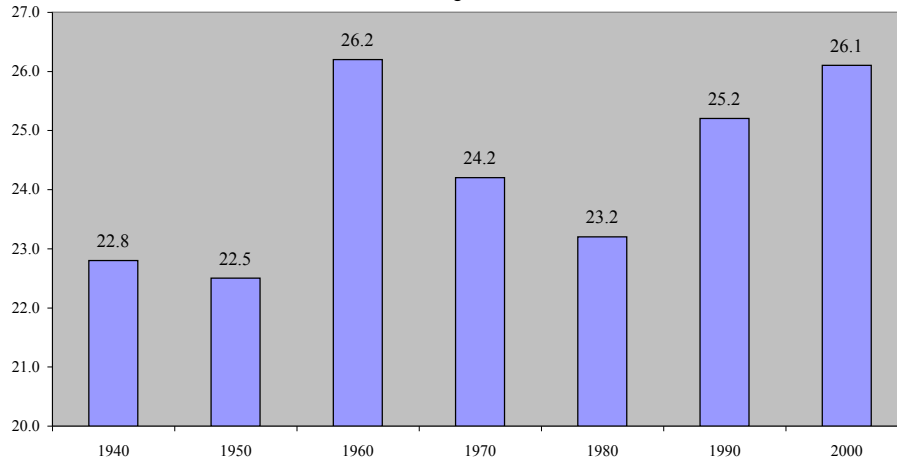
### Trends in African American Homeownership

Since the earliest reporting of homeownership rates in the United States, black or African American households and households of other racial/ethnic subpopulations<sup>28</sup> consistently have been less likely than white households to own homes. This is true regardless of income level, although the gap between the homeownership rates of high-income whites and high-income African Americans is the smallest of the gaps by income group. In addition to being less likely than whites to own homes, African Americans own homes with lower median value than whites. These trends persist in spite of initiatives undertaken since the mid-1990s to increase homeownership among households with low incomes or whose members belong to racial/ethnic subpopulations.

- In 1940, the black homeownership rate was half the white rate; since then the black rate has remained substantially lower than the white rate, despite increases in both rates. Between 1940 and 2000, the homeownership rate for black households more than doubled, increasing from 22.8 percent to 46.3 percent. During that same period, the rate for white households grew from 45.6 percent to 72.4 percent, increasing at a lesser rate but growing to a much higher level than the black rate.<sup>29</sup> (Figure 1)
- The homeownership rate of African Americans in 2000 was 46.3 percent, less than one percentage point greater than the white rate in 1940. (Figure 1)
- Homeownership rates for Hispanic households are comparable to those of African American households. In 1970, the homeownership rate for Hispanics was 43.8 percent, compared to a rate of 42.6 percent for African Americans. In 2000, the rate for Hispanics had grown to 45.4 percent, compared to a rate of 46.3 percent for African Americans. (Figure 1)
- The homeownership rate for Asians is higher than that of African Americans but lower than the homeownership rate for white households. In 1970, the homeownership rate for Asian households was 48.9 percent, growing to 54.0 percent in 2000.<sup>30</sup> (Figure 1)
- The homeownership gap between blacks and whites has varied little over time. In 1940, the

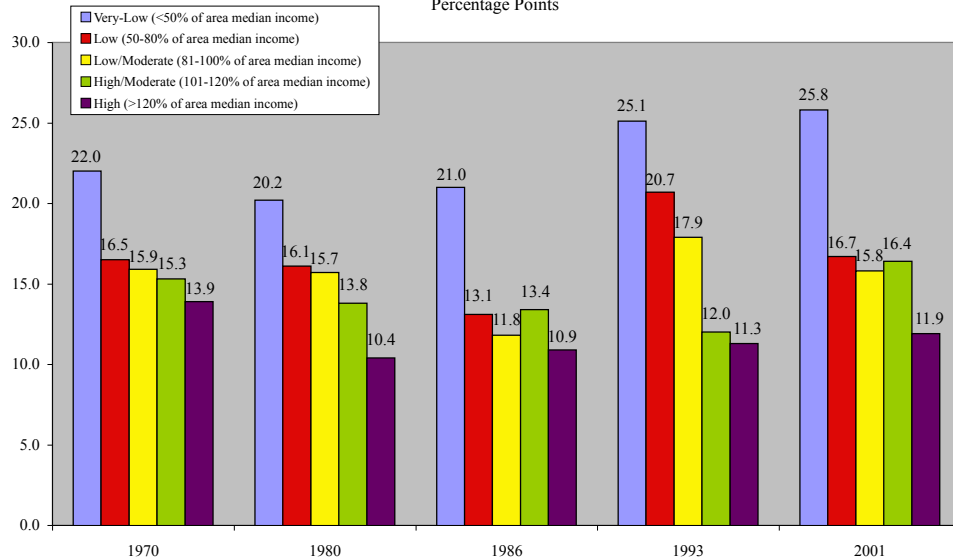


**Figure 2**  
**White-Black Household Homeownership Rate Gap, 1940-2000**  
Percentage Points



Source: Herbert CE, Haurin DR, Rosenthal SS, and Duda M. 2005. *Homeownership Gaps Among Low-Income and Minority Households*. Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, available at: <http://www.huduser.org/publications/HOMEOWN/HGapsAmongLInMBnN.html>, 97.

**Figure 3**  
**Homeownership Rate Gap between White and Black Households by Income, 1970-2001**  
Percentage Points

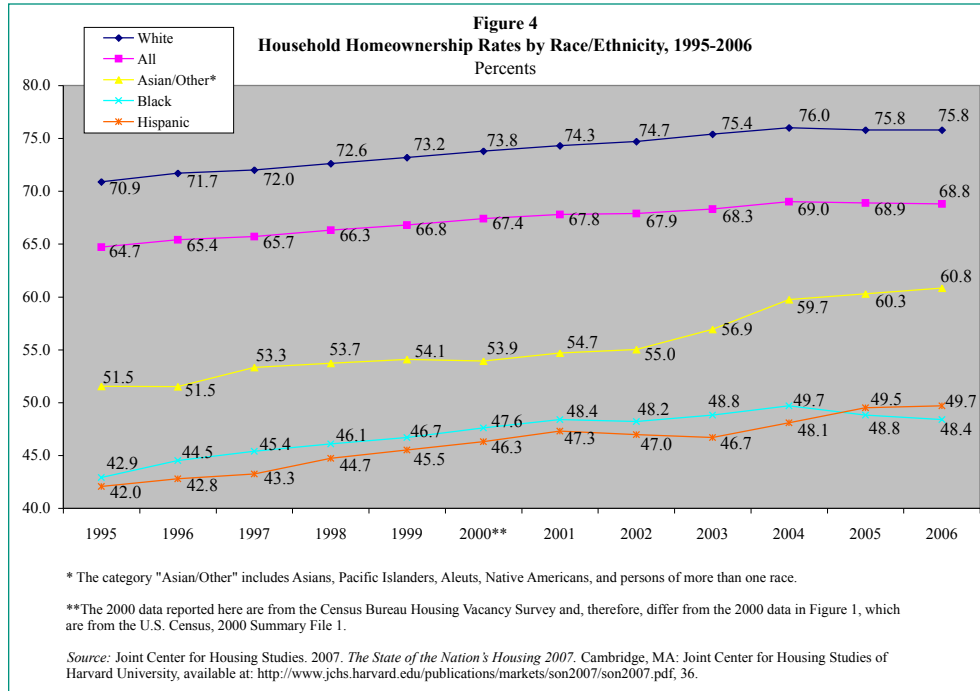


Source: Herbert CE, Haurin DR, Rosenthal SS, and Duda M. 2005. *Homeownership Gaps Among Low-Income and Minority Households*. Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, available at: <http://www.huduser.org/publications/HOMEOWN/HGapsAmongLInMBnN.html>, 97.



homeownership gap between blacks and whites was 22.8 percentage points. By 2000, this gap had risen to 26.1 percentage points. While much of this difference can be attributed to characteristics such as income, education, marital status, and household size, between 5 and 10 percentage points of the difference remains unexplained and may be attributable to factors such as racial discrimination.<sup>31</sup>(Figure 2)

- Although rates for blacks remain less than rates for whites, homeownership increased for blacks of every income level between 1970 and 2001. These increases differed predictably, however, with higher income blacks having higher homeownership rates. Among blacks with the highest incomes (i.e., incomes greater than 120 percent of the area median income), homeownership rates jumped from 65.9 percent in 1970 to 75.8 percent in 1980, but dropped to 73.4 percent in 1986. By 2001, their rate had increased to 76.2 percent.<sup>32</sup>
- The gap between the highest-income blacks and highest-income whites decreased by two percentage points (from 13.9 percentage points to 11.9 percentage points) over this same time period. In 1970, 65.9 percent of the highest-income blacks and 79.8 percent of the highest-income whites owned homes, compared to 76.2 percent and 88.1 percent, respectively, in 2001.<sup>33</sup> (Figure 3)
- Among low/moderate-income blacks (with incomes between 80 percent and 100 percent of the area median income) homeownership rates increased from 50.2 percent to 55.4 percent between 1970 and 1986. The rate then dropped to 53.2 percent in 1993, before increasing to 59.4 percent in 2001.<sup>34</sup> When compared to low/moderate-income whites in 1970 and 2001, however, the gap between the homeownership rates of blacks and whites was virtually constant at nearly 16 percentage points. (Figure 3)
- Among blacks with very-low incomes (less than 50 percent of area median income), homeownership increased slightly overall between 1970 and 2001. This overall increase masks modest decreases, however, between 1970 and 1993—from 31.6 percent in 1970 to 30.8 percent in 1980 and to 28.1 percent in 1993—before the rate increased to 33.4 percent in 2001.<sup>35</sup>
- In addition, the homeownership gap between the lowest-income blacks and lowest-income whites—the greatest gap reported between black and white owners at any income level—increased between 1970 and 2001. The white-black homeownership gap for very-low income households increased from 22.0 percentage points to 25.8 percentage points. (Figure 3)
- Blacks in the South are more likely than blacks in other regions of the country to own homes. In 2001, 53.8 percent of black households in the South were homeowners, compared to 47.8 percent of households in the Midwest, 36.9 percent of households in the West, and 34.8 percent of households in the Northeast.<sup>36</sup>
- The homeownership rate gap between blacks and whites in 2001 also was lower in the South than in the other regions of the country—23.3 percentage points. This gap is less than the corresponding differences of 38 percentage points in the Northeast, 32.5 percentage points in the West, and 29.6 percentage points in the Midwest.<sup>37</sup>
- The median value of homes owned by white Americans in 2000 was \$123,400, compared to a median home value of \$80,600 for blacks or African Americans.<sup>38</sup> In 2004, the median home values for white Americans and African Americans were \$153,693 and \$103,532, respectively. By 2006, the median values had increased by more than 20 percent for both groups, to \$185,500 for white Americans and to \$129,700 for African Americans.<sup>39</sup>
- Despite the national real estate boom since the mid-1990s, fewer than one-half of black households currently are homeowners. Between 1995 and 2006, the homeownership rate among black households grew from 42.9 percent to 48.4 percent. (Figure 4) This growth may be attributable in part to programs to assist low-income and racial/ethnic subpopulations to become owners. In 2006, the homeownership rate among all U.S. households was 68.8 percent, up from 64.7 percent in 1995. The homeownership rate among white households increased from 70.9 percent to 75.8 percent over this period.<sup>40</sup>
- Throughout the 1995-2006 period, homeownership rates for Asian (and Other) households exceeded those among African Americans. (Figure 4)
- By the end of the 1995-2006 period, the homeownership rate among Hispanic households was slightly greater than that among African Americans—49.7 percent for Hispanics and 48.4 percent for African Americans in 2006. (Figure 4)



## Initiatives to Increase Homeownership

Government agencies and non-governmental organizations have established many programs to help increase homeownership rates among people with low incomes. African Americans are beneficiaries of many homeownership assistance programs, because they are a disproportionately low-income population.<sup>41</sup> In addition, some programs target racial/ethnic subpopulations explicitly in their efforts to revitalize the neighborhoods in which these subpopulations dominate. Several programs that are known to or can logically be expected to serve African Americans are featured in this brief.

### Federal Government

- The U.S. Department of Housing and Urban Development (HUD) offers several programs geared towards helping people with low incomes and members of racial/ethnic subpopulations realize their dreams of homeownership. These programs include (but are not limited to) the Homeownership Voucher Program, the American Dream Downpayment Initiative, and Section 32 homeownership plans.
  - o Homeownership Voucher Program<sup>42</sup>

This program, initiated in 2001, offers vouchers to help low-income families buy single-family homes. The Homeownership Voucher Program allows Section 8 voucher recipients to use their vouchers to buy homes in which to live, rather than to use the vouchers to rent housing (the original intent of the Section 8 Housing Choice Voucher program, of which this program is part).

The homeownership program recipients receive monthly vouchers to help with expenses such as mortgage payments, utilities, and home repairs. First-time, very-low-income homeowners who are not Section 8 rental voucher recipients may apply for the program through their local participating Public Housing Agency (PHA). Between May 1, 2006 and Aug. 31, 2007, forty percent of the 5,693 households who received homeownership vouchers were headed by a black or African American.<sup>43</sup> The program was allocated \$5 million in funding in FY 2007.<sup>44</sup>

- o American Dream Downpayment Initiative<sup>45</sup>

The American Dream Downpayment Initiative (ADDI) was created in 2003 to help low-income households become first-time homeowners by providing funds for downpayments, closing costs, and repairs. The ADDI is administered through HUD's Home Investment Partnerships Program (HOME), which provides formula block grants to more than 500 participating jurisdictions (states and local governments) nationwide to help create affordable housing for low-income households.<sup>46</sup> The ADDI grants may be used in conjunction with other programs such as the Section 8 Homeownership Voucher Program. Through Dec. 31, 2005, the ADDI had provided more than \$98 million in assistance to 13,300 households. Nearly half (48.9 percent or a total of 6,355) of these households were headed by members of racial/ethnic subpopulations.<sup>47</sup> The ADDI was allocated \$24.8 billion in federal funding in FY 2007.<sup>48</sup>



o Section 32 homeownership program<sup>49</sup> Public Housing Agencies (PHAs) may use their funds to help low-income families (both those who reside in public housing and those who do not) purchase homes to use as their primary residences.<sup>50</sup> PHAs may use three means to achieve this goal:

1. They may sell public housing developments to public housing residents and qualified non-public housing residents.
2. They may use their Capital Funds to help public housing residents purchase homes—by providing subsidies to help with downpayments, closing costs, or mortgage payments.
3. They may use Capital Funds to purchase homes to sell to qualified low-income buyers.

African Americans are disproportionately likely to benefit from this program since they were 40 percent of public housing residents during the period May 1, 2006, through Aug. 31, 2007,<sup>51</sup> but were only 12.2 percent of the U.S. population in 2006.<sup>52</sup>

- The Federal Housing Administration (FHA), now a division of HUD, was created by Congress in the midst of the Great Depression (1934) to jumpstart the economy by stimulating the housing industry and, thereby, increasing homeownership levels. The FHA insures loans with lower downpayments and for persons with less-than-perfect credit histories who could not qualify for conventional (i.e., not insured or guaranteed by the federal government) prime-rate loans.<sup>53</sup> Although FHA loan programs have enabled low-income households to become owners since the 1930s, African American borrowers did not benefit from FHA loan programs in large numbers until after the enactment of civil rights legislation in the 1960s.<sup>54</sup>
- The U.S. Department of Agriculture (USDA) Rural Development offers many programs to help low-income rural residents become homeowners. Rural Development offers low-interest loans to help purchase, build, and repair homes.<sup>55</sup> In 2002, USDA Rural Development signed on to help achieve President Bush's goal of increasing homeownership among racial/ethnic subpopulations by increasing the participation of lenders of color, promoting homeownership education, and monitoring lending practices.<sup>56</sup> Many states support rural homeownership by incorporating USDA Rural Development initiatives and programs into their own efforts. For example, Alabama offers its Rural Alabama Mortgage Program that combines low-interest-rate funding and downpayment assistance

from the Alabama Housing Finance Authority with USDA Rural Development's 502 Direct Loan Program.<sup>57</sup>

#### *Government-Sponsored Enterprises*

- The U.S. Congress chartered two government-sponsored enterprises (GSEs)—Fannie Mae and Freddie Mac<sup>58</sup>—to establish a secondary market for home loans. The GSEs purchase mortgages from financial institutions and package them as mortgage-backed securities (MBS) for sale in the secondary market. The operation of the secondary market thus increases the funds available for mortgage lending in what is known as the primary market. Fannie Mae and Freddie Mac are now private shareholder-owned companies regulated by the Office of Federal Housing Enterprise Oversight (OFHEO). In exchange for carrying out their “public purposes,” these GSEs are exempt from state and local taxes and have conditional access to a \$2.25 billion line of credit from the Treasury Department.<sup>59</sup>
- Fannie Mae was created in 1938 by the federal government to “expand the flow of mortgage funds in all communities, at all times, under all economic conditions, and to help lower the costs to buy a home.”<sup>60</sup> Initially established to buy FHA-insured loans and establish a secondary market for these loans, Fannie Mae was also chartered to help support government housing programs in general. Today Fannie Mae is involved in the market for conventional loans as well.<sup>61</sup>
- Freddie Mac was created by Congress in 1970 to further increase the supply of funds available to homebuyers via the secondary market. More specifically, Freddie Mac was chartered to buy conventional home loans and to help stimulate a secondary market for them.<sup>62</sup>
- Fannie Mae and Freddie Mac ensure that lenders are able to lend money to homebuyers at low rates by helping lenders package mortgages into MBS, helping lenders finance multifamily housing, and purchasing mortgage assets from lenders.<sup>63</sup> Fannie Mae and Freddie Mac only purchase conforming loans—that is, loans whose balances do not exceed the loan limits set by OFHEO.<sup>64</sup> In 2007, the conforming loan limit for single-family mortgages was \$417,000.<sup>65</sup>
- Since 1992, Fannie Mae and Freddie Mac have been required by Congress to devote a minimum percentage of their business to meet three affordable housing goals:
  1. Low- and Moderate-Income—targeting families with low and moderate incomes (i.e., incomes at or below the area median income)



2. Special Affordable—targeting very-low-income families (defined for these goals as incomes at or below 60 percent of the area median income) living in any area, and low-income families (i.e., with incomes at or below 80 percent of the area median income) living in low-income areas
  3. Underserved Areas—targeting families living in low-income or middle-income census tracts with high populations of minorities<sup>66</sup>
- A 2004 HUD regulation set the GSEs' affordable housing goals for 2005-2008. In 2007, the goals for both Fannie Mae and Freddie Mac are<sup>67</sup>:
1. Low- and Moderate-Income: 55 percent of their business
  2. Special Affordable: 25 percent of their business
  3. Underserved Areas: 38 percent of their business

In 2006, both organizations met their affordable housing goals of 53 percent, 23 percent, and 38 percent, respectively.<sup>68</sup>

- One goal of Fannie Mae's *American Dream Commitment* initiative, announced in 2000, is to raise the homeownership rates of racial/ethnic subpopulations and underserved Americans by providing \$2 trillion in private capital over a decade. The American Dream Commitment initiative includes a Community Development Financial Institution initiative, through which Fannie Mae (the nation's largest investor in banks owned by racial/ethnic subpopulations) has committed to provide \$150 million in capital to strengthen community-focused financial institutions.<sup>69</sup> Fannie Mae also offers several mortgage products through its lending partners to help homeowners overcome the two traditional barriers to homeownership: low qualifying income and lack of funds for a large downpayment. These products have lower downpayments, lower income minimums, and provide more flexibility to people without traditional credit histories. Special programs for teachers, firefighters, police officers, and people with disabilities also are made available using these same products.<sup>70</sup>
- Freddie Mac offers several programs that seek to help people both purchase homes and maintain ownership of those homes. Its *CreditSmart*<sup>®</sup> curricula are designed to teach consumers about how to build and improve their credit, as well as how to preserve and maintain homeownership.<sup>71</sup> Freddie Mac's *Don't Borrow Trouble* financial literacy

and public educational campaign is aimed toward helping consumers avoid predatory lending, which disproportionately affects African Americans and Hispanics.<sup>72</sup> (See [Brief #2, African Americans and Homeownership: The Subprime Lending Experience, 1995 to 2007.](#))

#### *State and Local Governments*

State and local governments also offer programs to assist low-income and first-time homebuyers purchase homes.<sup>73</sup> These programs generally offer loans and grants to help with downpayments and closing costs and/or provide below-market-interest-rate mortgage loans. Selected examples of state and local government homeownership assistance programs are provided below.

- The State of New York Mortgage Agency (SONYMA) offers four mortgage programs to assist first-time homebuyers in the state: Remodel New York, Achieving the Dream, the Low Interest Rate Program, and the Construction Incentive Program. All programs offer assistance with closing costs, have low downpayments, offer below-market-interest-rate loans, and contain no prepayment penalties.<sup>74</sup>
- Many states have housing trust funds that distribute funds to local agencies to help people buy homes. States, counties, cities, and localities use sources of dedicated public funding to create housing trust funds (generally through legislation) to provide affordable housing.<sup>75</sup> The state of Florida has one of the nation's largest housing trust funds, managed by a coalition of government agencies, non-profit organizations, and building and real estate trade organizations. The Florida housing trust fund was created in 1992 by the William E. Sadowski Affordable Housing Act, which increased the state documentary stamp tax for real estate transactions to create a dedicated revenue stream for it. This housing trust fund provides money for both state and local programs, including the State Housing Initiatives Partnership (SHIP) Program and the Homeownership Assistance Program (HAP).<sup>76</sup>
- State and local governments also sell mortgage revenue bonds (MRBs) through housing finance agencies to assist first-time and low-income borrowers in acquiring homes. Proceeds from MRBs provide downpayment assistance and low fixed-interest-rate mortgages to first-time homebuyers who earn up to 115 percent of the area median income.<sup>77</sup>

#### *Other Organizations and Programs*

- Neighborhood Reinvestment Corporation (which does business as NeighborWorks<sup>®</sup> America) helps revitalize





communities by expanding access to affordable housing and increasing homeownership. It also helps homeowners avoid foreclosure.<sup>78</sup> The organization started in 1968 when a coalition of community members in Pittsburgh persuaded local financial institutions to make loans to the community and set up revolving loan funds.<sup>79</sup> In 1978, Congress institutionalized the NHS network, giving it a charter as the Neighborhood Reinvestment Corporation. Neighborhood Reinvestment Corporation received \$117 million in federal funding in FY 2007, in addition to privately raised capital.<sup>80</sup> In FY 2006, NeighborWorks® helped more than 16,500 families and individuals—21 percent of whom were black—become homeowners through its *Campaign for Homeownership*.<sup>81</sup>

- Manna is a Washington, D.C.-based nonprofit organization that helps low- and moderate-income D.C. residents become homeowners through several programs, such as its Homebuyers Club (a peer support group and a homeownership counseling program) and its IDA (Individual Development Account)<sup>82</sup> program (which provides a \$3,000 match to program participants who save \$800 over two years, funds that then may be used for a downpayment and closing costs toward the purchase of a home). Manna also works with a community lender to help low- and moderate-income individuals secure home purchase and refinance loans with low interest rates and favorable terms.<sup>83</sup>

## Conclusion

African American households are much less likely to own homes than are whites. The homeownership rate of African Americans in 2000 was 46.3 percent, less than one percentage point greater than the white rate in 1940! Despite the homeownership growth spurt since 1995, less than half of African Americans are homeowners—beginning with a 42.9 percent ownership rate in 1995 and emerging at 48.4 percent in 2006—while ownership for whites rose from 71 percent to 76 percent over this period. In 2006, homeownership rates for households who were Asian (and Other) and Hispanic also exceeded the African American rate.

Our history as a nation offers many explanations for this enduring gap—redlining, steering, discrimination at various stages in the ownership acquisition process, and predatory lending abuses primarily in the subprime mortgage market. Programs by federal, state, and local governments are in place to expand homeownership throughout the nation and among populations such as African Americans whose rates have historically trailed the U.S. average. Although some progress is evident, much work remains to be done.

## Notes

1. Gramlich EM. 2007. *Subprime Mortgages: America's Latest Boom and Bust*. Washington, DC: Urban Institute Press.
2. Duda M and Belsky ES. "The Anatomy of the Low-Income Homeownership Boom in the 1990s," in: Retsinas NP and Belsky ES, eds. 2002. *Low-Income Homeownership: Examining the Unexamined Goal*. Washington, DC and Cambridge, MA: Brookings Institution Press and Joint Center for Housing Studies of Harvard University, available at: <http://www.jchs.harvard.edu/publications/homeownership/liho01-1.pdf>.
3. Herbert CE and Belsky ES. 2006. *The Homeownership Experience of Low-Income and Minority Families: A Review and Synthesis of the Literature*. Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, available at: [http://www.huduser.org/Publications/PDF/hisp\\_homeown9.pdf](http://www.huduser.org/Publications/PDF/hisp_homeown9.pdf), 1-2.
4. The fact that many homeownership benefit studies do not investigate differences in benefits among homeowners by income or race could limit our knowledge about the full impact of homeownership. In particular, selection bias could be a significant contributor to the associations between homeownership and civic engagement, educational attainment, and social behaviors. In other words, "people who choose to become owners are, on average, likely to be different from renters in important ways that may not be apparent from available data." For further information about homeownership benefit studies, see Herbert and Belsky, 100 and 112. For details about post-1990 studies that have corrected for this selection bias using panel data, see the discussion in Gramlich EM. "America's Second Housing Boom." Opportunity and Ownership Project Brief #7. Washington, DC: Urban Institute Press, available at: [http://www.urban.org/UploadedPDF/311418\\_Second\\_Housing\\_Boom.pdf](http://www.urban.org/UploadedPDF/311418_Second_Housing_Boom.pdf), 5.
5. Herbert and Belsky, 97.
6. Joint Center for Housing Studies. 2007. *The State of the Nation's Housing 2007*. Cambridge, MA: Joint Center for Housing Studies of Harvard University, available at: <http://www.jchs.harvard.edu/publications/markets/son2007/son2007.pdf>, p.38.
7. Rohe WM, Van Zandt S, and McCarthy G. "The Social Benefits and Costs of Homeownership: A Critical Assessment of the Research," in: Retsinas NP and Belsky ES, eds. 2002. *Low-Income Homeownership: Examining the Unexamined Goal*. Washington, DC and Cambridge, MA: Brookings Institution Press and Joint Center for Housing Studies of Harvard University, available at: <http://www.jchs.harvard.edu/publications/homeownership/liho01-12.pdf>, 20.
8. Herbert and Belsky, 103-105.
9. Rohe, Van Zandt, and McCarthy, 20.



10. Rohe, Van Zandt, and McCarthy, 21.
11. Herbert & Belsky, 101.
12. Boehm TP and Schlottmann AM. 2001. *Housing and Wealth Accumulation: Intergenerational Impacts*. Low-Income Homeownership Working Paper Series, LIHO-01.15. Cambridge, MA: Joint Center for Housing Studies, available at: <http://www.jchs.harvard.edu/publications/homeownership/liho01-15.pdf>, 15.
13. Herbert & Belsky, 108-109.
14. Ibid.
15. Herbert & Belsky, 46.
16. Rohe, Van Zandt, and McCarthy, 13.
17. In 1967, home equity accounted for 67 percent of the net worth of black households, compared to a 40-percent share among white households. In 1988, home equity was 63 percent of black household net worth and 43 percent of white household net worth. By 2000, home equity had fallen to only 31 percent of white household net worth, but was 62 percent of black household net worth. Data are from Leigh WA. "Wealth Measurement: Issues for People of Color in the United States," in: Nembhard JG and Chiteji N, eds. 2006. *Wealth Accumulation & Communities of Color in the United States: Current Issues*. Ann Arbor, MI: The University of Michigan Press, 43. Although the percentage that home equity constitutes of all net worth varies by data source used, more recent data suggest that this percentage is now more nearly equal for blacks and whites than it was historically. See Gouskova E and Stafford F. 2002. "Trends in Household Wealth Dynamics, 1999-2001," available at: <http://psidonline.isr.umich.edu/Publications/Papers/TrendsIndynamics1999-2001.pdf>; and Gouskova and Stafford F. 2005. "Trends in Household Wealth Dynamics, 2001-2003," available at: <http://psidonline.isr.umich.edu/Publications/Papers/TrendsIndynamics2001-2003.pdf>. Regardless of the data source used, home equity remains a major source of wealth for all households in the United States.
18. Herbert & Belsky, 97.
19. Herbert & Belsky, 51.
20. Ibid.
21. Haurin DR and Rosenthal SS. 2004. *The Sustainability of Homeownership: Factors Affecting the Duration of Homeownership and Rental Spells*. Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, available at: <http://www.huduser.org/Publications/pdf/homeownsustainability.pdf>, 19-20.
22. Haurin and Rosenthal, 43.
23. Redlining is the "illegal practice of refusing to make residential loans or imposing more onerous terms on any loans made because of the predominant race, national origin, etc., of the residents of the neighborhood in which the property is located." See U.S. Department of Housing and Urban Development, Office of the Assistant Secretary for Housing—Federal Housing Commissioner. Mortgage Letter 94-22: "Fair Lending Practices and Policy Statement on Discrimination," May 4, 1994, available at: <http://www.fha.gov/reference/ml1994/>.
24. Massey DS and Denton N. 1993. *American Apartheid: Segregation and the Making of the Underclass*. Cambridge, MA: Harvard University Press.
25. Bertrand M and Mullainathan S. "Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination," *The American Economic Review* 2004 Sept; 94(2): 991-1013; and Darity W and Mason P. "Evidence on Discrimination in Employment: Codes of Color, Codes of Gender," *Journal of Economic Perspectives* 1998; 12(2): 63-90.
26. Loan flipping is a practice of lenders that includes refinancing loans repeatedly in a short period of time, charging fees to the borrower each time, and thus depleting home equity.
27. HUD-Treasury Task Force on Predatory Lending. 2001. *Curbing Predatory Home Mortgage Lending*. Washington, DC: U.S. Department of Health and Human Services and U.S. Department of the Treasury, available at: <http://www.huduser.org/publications/hsgfn/curbing.html>, 21-22.
28. Although the sources for this brief use many different labels when presenting data for the major racial/ethnic groups in the United States, in this brief the following terms are used: Asians, Asians (and Others), black or African American, Hispanic or Latino, and white or white American. The category "Asians (and Others)" includes Asians, Pacific Islanders, Aleuts, Native Americans, and persons of more than one race.
29. Herbert CE, Haurin DR, Rosenthal SS, and Duda M. 2005. *Homeownership Gaps Among Low-Income and Minority Households*. Washington, DC: U.S. Department of Housing and Urban Development, Office of Policy Development and Research, available at: <http://www.huduser.org/publications/HOMEOWN/HGapsAmongLInMBnN.html>, 85.
30. Ibid.
31. Herbert et al, 169.
32. Herbert et al., 97.
33. Ibid.
34. Ibid.
35. Ibid.



36. Herbert et al., 121.
37. Ibid.
38. Bennefield RL. 2003. "Home Values: 2000." Census 2000 Brief C2KBR-20. Washington, DC: U.S. Census Bureau, available at: <http://www.census.gov/prod/2003pubs/c2kbr-20.pdf>, 3.
39. U.S. Census Bureau. American Community Survey, 2004 and 2006, "Selected Population Profile." American FactFinder, available at: <http://factfinder.census.gov>.
40. Joint Center for Housing Studies, 38.
41. In 2006, 24.3 percent of African Americans had incomes below the federal poverty level, compared to 8.2 percent of whites, 10.3 percent of Asians, and 20 percent of Hispanics. DeNavas-Walt C, Proctor BD, and Smith J. 2007. *Income, Poverty, and Health Insurance Coverage in the United States: 2003*. Washington, DC: U.S. Government Printing Office, available at: <http://www.census.gov/prod/2007pubs/p60-233.pdf>, 11.
42. "Homeownership Vouchers," available at: <http://www.hud.gov/offices/pih/programs/hcv/homeownership/>; and "Section 8 Homeownership Voucher Program," available at: <http://www.massresources.org/pages.cfm?contentID=7&pageID=2&subpages=yes&SecondLeveldynamicID=534&DynamicID=372>.
43. "Resident Characteristics Report," at: <https://pic.hud.gov/pic/RCRPublic/rcrmain.asp>.
44. "Detailed Information on the Homeownership Voucher Assessment," available at: <http://www.whitehouse.gov/omb/expectmore/detail/10002192.2004.html>.
45. "American Dream Downpayment Initiative," available at: <http://www.hud.gov/offices/cpd/affordablehousing/programs/home/addi/>.
46. See <http://www.hud.gov/offices/cpd/affordablehousing/programs/home/> for more information on HOME.
47. Wood D. 2006. *HUD Homeownership Programs: Data Limitations Constrain Assessment of the American Dream Downpayment Initiative*. GAO Report 06-677. Washington, DC: U.S. Government Accountability Office, available at: <http://www.gao.gov/new.items/d06677.pdf>
48. "Detailed Information on the American Dream Downpayment Initiative Assessment," available at: <http://www.whitehouse.gov/omb/expectmore/detail/10009022.2007.html>.
49. "Homeownership," available at: <http://www.hud.gov/offices/pih/centers/sac/homeownership/>.
50. This program is called the Section 32 homeownership program because it was implemented as the result of a 2003 rule change (issued in 24 CFR 906) to Section 32 of the U.S. Housing Act of 1937.
51. "Resident Characteristics Report," at: <https://pic.hud.gov/pic/RCRPublic/rcrmain.asp>.
52. U.S. Census Bureau, 2006 American Community Survey. "Table S0201: Selected Population Profile in the United States, Black or African American alone, not Hispanic or Latino," available at: <http://factfinder.census.gov>.
53. Conventional loans are loans that are not insured or guaranteed by the government (through government agencies such as the Federal Housing Administration, the Department of Veterans Affairs, or the Department of Agriculture's Rural Housing Services). The prime rate is the interest rate that banks and other commercial lenders charge their clients with the best credit histories.
54. Leigh WA. "Federal Government Policies and the 'Housing Quotient' of Black American Families," *The Review of Black Political Economy* 1989 Winter; 17(3): 25-42; and Leigh WA. "Civil Rights Legislation and the Housing Status of Black Americans: An Overview," *The Review of Black Political Economy* 1991 Winter/Spring; 19(3-4): 5-28.
55. See [http://www.rurdev.usda.gov/rhs/common/program\\_info.htm#SFH](http://www.rurdev.usda.gov/rhs/common/program_info.htm#SFH) for more information about USDA Rural Development.
56. "Rural Development: Five Star Commitment to Expand Rural Minority Homeownership," available at: [http://www.rurdev.usda.gov/rhs/Admin/2002%20Five%20Star/5\\_star.htm](http://www.rurdev.usda.gov/rhs/Admin/2002%20Five%20Star/5_star.htm).
57. See <http://www.ahfa.com/default.aspx?page=RAMP> for more information on the Rural Alabama Mortgage Program.
58. Fannie Mae's former moniker is the Federal National Mortgage Association (FNMA) and Freddie Mac's former moniker is the Federal Home Loan Mortgage Corporation (FHLMC).
59. "HUD's Regulation of Fannie Mae and Freddie Mac," available at: <http://www.hud.gov/offices/hsg/gse/gse.cfm>.
60. "About Fannie Mae," available at: <http://www.fanniemae.com/aboutfm/index.jhtml?p=About+Fannie+Mae>.
61. After World War II, the mission of Fannie Mae expanded to include loans insured by what was then known as the Veterans Administration. In 1968, Fannie Mae was split into two new entities: Ginnie Mae (Government National Mortgage Association) and the reconstituted Fannie Mae. Ginnie Mae became a federal agency within HUD, responsible at first for special housing assistance programs. Currently Ginnie Mae guarantees investors the timely payment of principal and interest on MBS backed



- by federally-insured or -guaranteed loans. The reconstituted Fannie Mae became a stockholder-owned and -managed GSE. See “About Ginnie Mae,” <http://www.ginniemae.gov/about/about.asp?Section=About>; and “About Fannie Mae,” available at: <http://www.fanniemae.com/aboutfm/index.jhtml?p=About+Fannie+Mae>.
62. “Frequently Asked Questions about Freddie Mac,” available at: [http://www.freddiemac.com/corporate/about/who\\_we\\_are/faq.html](http://www.freddiemac.com/corporate/about/who_we_are/faq.html).
63. “Frequently Asked Questions: What Fannie Mae Does,” available at: <http://www.fanniemae.com/faq/faq1.jhtml?p=FAQ>.
64. A nonconforming loan, also known as a jumbo loan, is one whose balance exceeds the conforming loan limits set for Fannie Mae and Freddie Mac each year.
65. Freddie Mac. *2006 Annual Report*, available at: [http://www.freddiemac.com/investors/ar/pdf/2006annualrpt\\_1.pdf](http://www.freddiemac.com/investors/ar/pdf/2006annualrpt_1.pdf).
66. “HUD’s Regulation of Fannie Mae and Freddie Mac,” available at: <http://www.hud.gov/offices/hsg/gse/gse.cfm>.
67. The percentages do not sum to 100 because a given home loan may count toward more than one housing goal.
68. For more information on the GSEs’ housing goals, see <http://www.hud.gov/offices/hsg/gse/gse.cfm>; and <http://www.hud.gov/news/release.cfm?content=pr07-133.cfm>.
69. “Minority Homeownership,” available at: <http://www.fanniemae.com/initiatives/minority/index.jhtml>.
70. “Affordable Housing Solutions,” available at: <http://www.fanniemae.com/housingcommdev/solutions/index.jhtml;jsessionid=XDYCKXKO5N5BHJ2FQSI5FGQ?p=Affordable+Housing+%26+Community+Development&s=Affordable+Housing+Solutions>.
71. For more information, see: <http://www.freddiemac.com/creditsmart/>.
72. For more information, see: <http://www.dontborrowtrouble.com/>
73. On its website, HUD provides weblinks to state and local homebuyer assistance programs. See <http://www.hud.gov/buying/localbuying.cfm>.
74. For more information on SONYMA’s programs, see: <http://www.nyhomes.org/home/index.asp?page=63>.
75. “Housing Trust Funds,” available at: <http://www.policylink.org/EDTK/HTF/default.html>.
76. For more information about the Florida housing trust fund, see [http://www.cmhc-schl.gc.ca/en/inpr/imhoaf/afhoid/fite/hotrifu/hotrifu\\_005.cfm](http://www.cmhc-schl.gc.ca/en/inpr/imhoaf/afhoid/fite/hotrifu/hotrifu_005.cfm) and <http://www.floridahousing.org/NR/rdonlyres/B7481E75-8A77-49B7-9DAB-B9D9FBCD458B/0/WilliamESadowskiAct.pdf>.
77. Mortgage revenue bonds (MRBs) are tax-exempt housing bonds sold by local and state governments to fund low-interest-rate mortgages for (generally low-income, first-time) homebuyers. “Mortgage Revenue Bonds,” available at: <http://www.freddiemac.com/sell/expmkts/mrbs.html>. See <http://www.housingaz.com/azhfa/mrb.aspx> for details about Arizona’s MRB program.
78. “NeighborWorks® America,” available at: <http://nw.org/network/home.asp>.
79. The organization initially was named Neighborhood Housing Services (NHS). In the years immediately after 1968, the NHS idea spread across the country, and other communities started their own NHS organizations, which soon became a network known as NeighborWorks® organizations.
80. “Detailed Information on the Neighborhood Reinvestment Corporation Assessment,” available at: <http://www.whitehouse.gov/omb/expectmore/detail/10002198.2004.html>.
81. *NeighborWorks® at Work: Community. Opportunity. Results, 2006 Annual Report*, available at: <http://nw.org/network/pubs/annualReports/documents/NWannualreport06.pdf>, 21.
82. An IDA (individual development account) is a matched savings account that (generally) low-income people can use to purchase a home or small business, or to pay educational expenses. Money saved by account holders is matched by funds from public and private sources.
83. For more information about Manna, see <http://www.mannadc.org>.

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