THE UNITED STATES CONFERENCE OF MAYORS

# America's Homeownership Gap

## How Urban Redlining and Mortgage Lending Discrimination Penalize City Residents

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**THE UNITED STATES CONFERENCE OF MAYORS**
1620 Eye Street, NW, Washington, D.C. 20006
phone: 202.293.7330 fax: 202.293.2352
http://www.usmayors.org/uscm

# AMERICA'S HOMEOWNERSHIP GAP

Despite a dramatic surge in the nation's homeownership rates, academics and housing experts continue to document discriminatory lending practices in inner cities today. The long and infamous history of housing and lending discrimination in this country scarred the lives of millions of families seeking to realize the dreams and aspirations of all Americans – to own a home. Unfortunately, such practices remain with us, in the form of urban redlining, mortgage steering, and other discriminatory actions. Not all families would choose to purchase a home in the city, but mortgage lending discrimination forces many urban home seekers to move to the suburbs to pursue the dream of homeownership. The result according to a recent Harvard University study is that inner-city residents of all income levels are less likely to own a home than suburban residents of similar incomes. This is not only unfair to those families denied the opportunity to live in the home of their choice, it also unfairly limits the ability of cities to maintain the homeowner base that is so vital to the economic and social stability of urban neighborhoods.

Discriminatory practices, of course, are particularly problematic for minority families. Urban redlining has ruined and continues to ruin thousands of minority communities. The Federal Reserve Board has shown that African Americans and Hispanics – even those making greater than 120 percent of the median income – are much more likely to be denied credit than whites. Once again, the pattern has a spatial dimension. As is the case with white families, the denial rate for minorities seeking to purchase homes in inner-city neighborhoods is particularly high, and many minority households must move away from the city to secure the mortgage credit needed to purchase a home of their own.

This report looks at the evidence compiled by the Federal Reserve Board and Harvard University's Joint Center for Housing Studies in order to argue for a renewed commitment to eliminate discriminatory lending practices and expand homeownership opportunities in urban America.

Over the past several years, the nation has witnessed a homeownership boom of substantial proportions. Favorable mortgage rates and rising incomes have enabled millions of American families to realize the dream of homeownership. Reversing the downward spiral of the 1980s, the homeownership boom of the 1990s pushed the national homeownership rate last year to an all time record high – 65.7 percent.

The United States Conference of Mayors applauds the overall increase in homeownership, but remains concerned that limited access to mortgage credit reduces the home buying opportunities in many urban areas. Despite efforts to promote private sector investment in urban homeownership, this report documents the continuing failure of the private mortgage industry to meet the credit needs of urban homebuyers.

## THE HOMEOWNERSHIP BOOM BYPASSES CITIES

As the number of homeowners increases nationwide, mayors across the country are appropriately concerned that center city residents are being left behind. According to data from the 1995 American Housing Survey presented in the Harvard University Joint Center for Housing Studies' annual report, "The State of the Nation's Housing 1997," center city residents of all income levels are less likely to own a home than suburban residents with similar incomes.

In 1995, just 49.0 percent of center city households owned a home, compared with 71.5 percent of suburban households. This disparity in homeownership rates between center city residents and suburban residents holds true for racial and ethnic groups of all income levels.

Among moderate-income households (those with incomes between 80 percent and 120 percent of area median), 71.3 percent of suburban residents own a home, but just 51.8 percent of center city residents do so.

Similarly, among higher income households (households with incomes between 120 percent and 150 percent of area median) 79.6 percent of suburban households own homes, compared with 65.5 percent of center city residents.

## RACIAL DISPARITIES IN HOMEOWNERSHIP PERSIST

The spatial gap in homeownership reflects, in part, the persistent gap in homebuying opportunities for racial and ethnic minorities. The Harvard Joint Center data document that African-American and Hispanic households of all income levels are less likely to own a home than white households of the same income group.

The homeownership rate for African-Americans with moderate incomes between 80 percent and 120 percent of area median is 48.5 percent, well below the 70.5 percent rate for their white counterparts. With a rate of only 51.2 percent, homeownership for moderate income Hispanics also lags behind whites.

This racial gap persists even among households with incomes that are between 20 to 50 percent higher than area median. While 78.3 percent of white households in this income group owned homes, the share for African-Americans is only 62.7 percent and for Hispanics only 64.5 percent.

## PRIVATE SECTOR FAILS TO MEET THE CREDIT NEEDS OF CENTRAL CITY RESIDENTS

While the spatial and racial gaps in homeownership reflect many factors, the Joint Center report concludes they are the legacy of "decades of discriminatory practices." "Worse yet," the Harvard study continues, "prejudicial lending and housing market practices still plague some areas of the country."

While mortgage lending practices have changed dramatically over the past decade, racial and ethnic minorities still face significant obstacles including urban redlining, mortgage steering and other discriminatory practices. For nearly a decade, mortgage lending information gathered by Federal Reserve Board in accordance with the requirements of the Home Mortgage Disclosure Act (HMDA) shows that minority households applying for mortgage credit were much more likely to be rejected than white households with a similar income. Similarly, denial rates were highest in the central city. In particular, 1996 data on applications for conforming conventional mortgages suggest:

In 1996, some 350,000 households – including 110,000 minority and 240,000 white households – were denied mortgage credit. Overall, approximately one in eight applicants were denied credit with particularly high denial rates for households of all racial groups seeking to purchase a home in inner-city areas.

Among all households with income between 100 and 120 percent of area median, 22.8 percent of African-American and 19.6 percent of Hispanic applicants were denied mortgage credit, compared with just 10 percent for whites.

These differences persist even among higher income applicants. Some 20.3 percent of African-Americans and 17.5 percent of Hispanics with incomes earning greater than 120 percent of median area were denied access to mortgage credit while just 8.3 percent of white households with similar income were denied credit.

## CLOSING THE MORTGAGE CREDIT GAP

HMDA data document that each year hundreds of thousands of households apply for mortgage credit, but are denied. Since a disproportionate number of those denied credit seek to buy homes in urban areas, closing the mortgage credit gap is of vital concern to the nation's mayors. Far and away, expanding homeownership opportunities is the best urban policy available. Homeownership not only enhances the well-being of individual families, it helps build the tax base of urban areas and enhance the social stability of communities.

Understandably, private mortgage industry is reluctant to accept the risk associated with low downpayment loans. Even so, given the importance of homeownership in this nation, the private mortgage industry has a special obligation to work with the Federal Housing Administration (FHA) and other public agencies to ensure that all households willing and able to purchase a home have access to mortgage credit. The denial of mortgage credit does more than limit the homebuying aspirations of families; it limits efforts to revitalize urban areas. The Conference of Mayors challenges all segments of the mortgage industry to ensure that the legacy of discriminatory practices is not allowed to persist in the market place of today.

## REFERENCES

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