

Homeownership Report

Policy Recommendations to Increase the Rate of Black Homeownership in RI



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PURPOSE OF THE REPORT

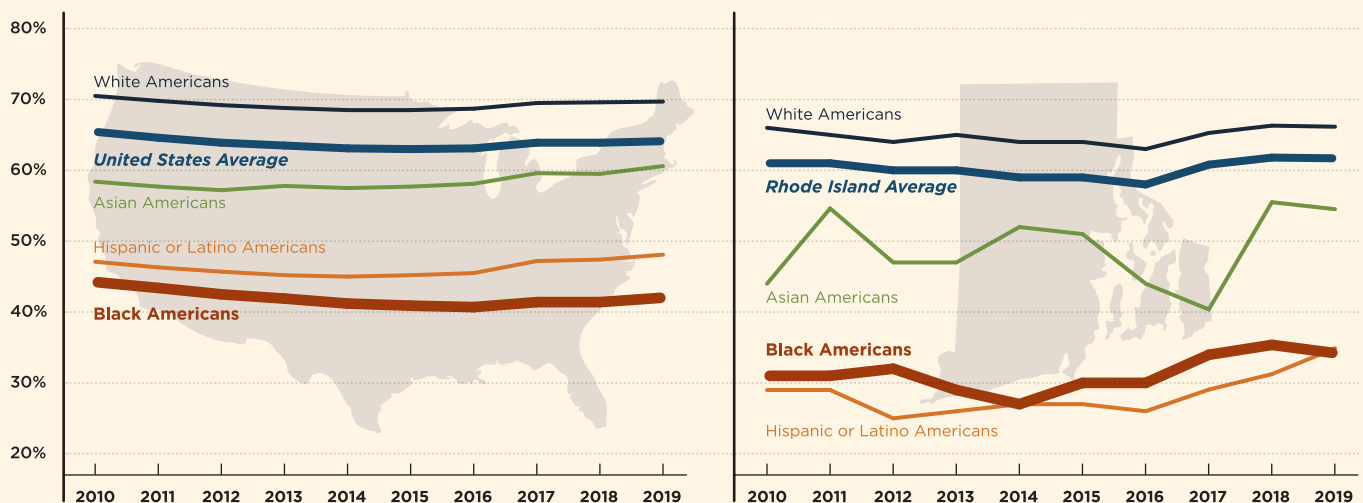
To increase homeownership for Black Rhode Islanders, policies are needed. These policies should be informed by the historical and current contexts that affect their rates of homeownership. This report describes homeownership rates for Black Americans in Rhode Island and summarizes the context of their homeownership. Last, specific policies are presented to increase homeownership for Black Rhode Islanders.

HOMEOWNERSHIP RATES

Disparities in homeownership for Black Americans have persisted over time. In the United States, more White, Asian and Hispanic Americans have owned homes than Black Americans. The racial differences in homeownership are similar for Rhode Island. However, in Rhode Island, Hispanic people have rates similar to Black people. (see Figure 1; NOTE: Only 10 years of homeownership rates are shown, however past racial and ethnic disparities are similar.)

FIGURE 1

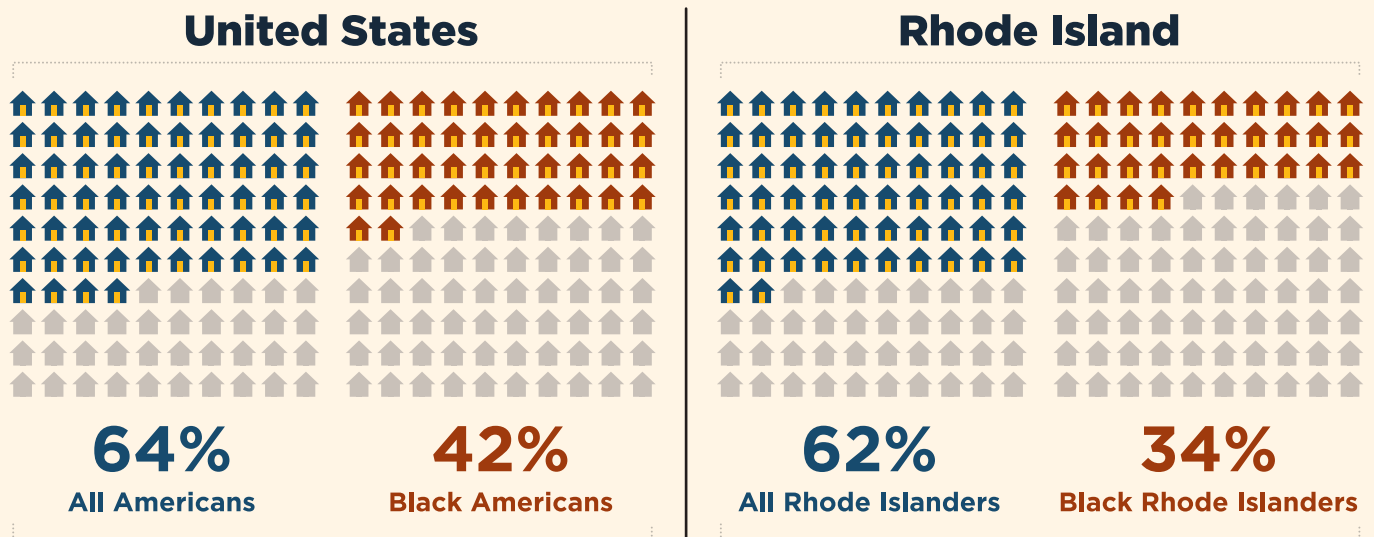
Percentage of Owner-occupied Homes in the US & RI from 2010-2019 by Race or Ethnicity



We used the US Census Bureau American Community Survey 1-year estimates because they are current. However, there is more error in the 1-year estimates than the 5-year estimates. Data for 2020 are not presented because the US Census Bureau considers these "experimental data" due to the hardship of data collection during COVID-19. Data for Native Americans is not presented due to the wide error margins.

FIGURE 2

Percentage of Owner-occupied Homes in the US & RI in 2019 for Overall Americans & Black Americans



We used the US Census Bureau American Community Survey 1-year estimates because they are current. However, there is more in the 1-year estimates than the 5-year. Data for 2020 are not presented because the US Census Bureau considers it to be “experimental data” due to the hardship of data collection during COVID-19.

In 2019, 65% of Americans owned their homes. However, just 42% of Black Americans owned their homes. While 62% of Rhode Islanders owned their homes, only 34% of Black Rhode Islanders owned a home. (see Figure 2)

BENEFITS OF HOMEOWNERSHIP

Owning a home provides housing stability and security.^{1,2} Homeowners live in better quality housing than renters (e.g., fewer pests and water leaks).^{2,3} Homeownership also makes it easier for people to manage household budgets. Often, monthly mortgages are the same (or lower) over time while rent tends to increase.²

Also, homes values usually increase, thus building equity.^{4,5} In fact, home values account for a large percentage of people’s wealth.⁶ From 2012 to 2018, Black people who purchased homes were able to build \$44 billion in equity.⁷ While this appears substantial, if Black homeownership rates matched at least their share of the US population, then Black homeowners would have built “an additional \$93 billion in equity” (p.17).⁷ Clearly, there are many benefits to homeownership.

However, due to federal, state and local policies, Black Americans have had limited opportunities to own homes. While historical barriers such as redlining and racism in mortgage practices made it difficult for Black Americans to purchase homes, many barriers persist.

HISTORIC & CURRENT BARRIERS TO HOMEOWNERSHIP FOR BLACK AMERICANS: A NATIONAL VIEW

Historic Barriers

Some federal, state, local and organizational policies were designed to make it nearly impossible for Black people to purchase homes. Some notable examples are the:

- **Federal Housing Authority’s practice of redlining** that prevented banks from making home loans to people in Black neighborhoods and made homes in these neighborhoods ineligible for federal mortgage insurance.⁸⁻¹⁰ From the 1930s to 1959, just 2% of Federal Housing Authority loans went to Black families.¹¹
- **Racially restrictive housing covenants** that prevented Black people from purchasing homes in certain neighborhoods. The Supreme Court upheld their legality in the *Corrigan v. Buckley* ruling of 1926.¹² The Federal Housing Authority encouraged the use of racially restrictive covenants for suburban neighborhoods.⁹ By the late 1930s to 1940s, over 80% of suburban neighborhoods had racial covenants that stopped Black people from buying homes.¹³ The Supreme Court didn’t strike down racially restrictive covenants until 1948 with the *Shelley v. Kraemer* ruling.¹³

► **GI Bill of 1944** was designed to help World War II veterans. One component of the bill provided veterans with guaranteed mortgages for a home, farm or business. About 8% of World War II veterans were Black, but just 0.7% of them received Veterans Affairs guaranteed mortgage loans.⁹

► **Racism in banking**, real estate and local communities. Black people faced racism from brokers and real estate agents (e.g., being steered away from White neighborhoods) and racism and racism-related violence from White neighbors in the communities in which they attempted to move.^{13,14}

Although presidential Executive Orders, the Fair Housing Act and other policies (e.g., Fair Housing Act Amendments, Equal Opportunity Credit Act) were instituted, historic and current barriers still make it difficult for Black people to own homes.^{7,13,15,16}

Current Barriers

► **Black people are more likely to be denied home loans**, offered subprime loans or loans with higher interest rates despite their creditworthiness.

► During the housing foreclosure crisis (2007–2010), one in three subprime loans was in neighborhoods where racial and ethnic minorities were 50% or more of the residents.^{17,18} Black homeowners were **more likely to face foreclosure** than White homeowners (21.6% vs. 15.7%, respectively), due in large part to subprime lending.^{18,19} Although homeowner relief policies (e.g., Making Home Affordable Program) were passed, these programs came too late to prevent the substantial losses in homeownership among Black people.⁷

► Even with the same application profile as White people, Black people are less likely to own homes due in part to racial discrimination. In 2019, Black people who applied for mortgages were 50% to 120% **more likely to be denied loans** than White mortgage applicants with the same credit score.¹⁹ (see Figure 3)

Other Barriers

► Black Americans are **less likely to have sufficient income for down payments**, have less access to credit and lower credit scores relative to other racial and ethnic groups.^{10,20,21}

► Even with similar credit, Black homebuyers are **more likely to be pushed toward subprime and higher interest mortgage loans** compared to White borrowers.²² Due to discrimination in mortgage lending, Black homeowners pay \$765 million more in mortgage interest each year.⁷

► Black people are **shown fewer houses, steered towards minority neighborhoods** and **given less help** during the housing search process.²³

► The **COVID-19 pandemic has made home ownership more financially difficult** and affected housing supply. Almost 20% of Black homeowners report that they are behind on mortgage payments.⁷ Also, few of these homeowners know about the mortgage forbearance options made available during COVID-19.^{7,24} Additionally, **historically low interest rates, limited housing supply and increased demand for housing has led to rising home prices**, which increased barriers to homeownership for Black people even more.^{10,25}

FIGURE 3

Percentage of Mortgage Loan Denial Rates by Race or Ethnicity if Applicant Profiles were Similar in 2019



Source: see reference 19

HISTORIC & CURRENT BARRIERS TO HOMEOWNERSHIP FOR BLACK AMERICANS: RHODE ISLAND

The national-level historic barriers (e.g., redlining) occurred in Rhode Island. For example, in 1935, redlining maps were created to show hazardous neighborhoods (i.e., predominantly Black) in Providence, Rhode Island.^{26,27} The efforts of organizations such as the Urban League, Citizens for a Fair Housing Law, and the Rhode Island chapter of the Congress of Racial Equity, helped advocate for fair housing practices in Rhode Island. The Rhode Island Fair Housing Practices Act was passed on April 12, 1965 and signed into law by Governor John Chafee. This act allowed people to file housing claims on the basis of discrimination (race, color, religion and etc.).²⁷ Despite these notable efforts, barriers to homeownership for Black Rhode Islanders persist.²⁸

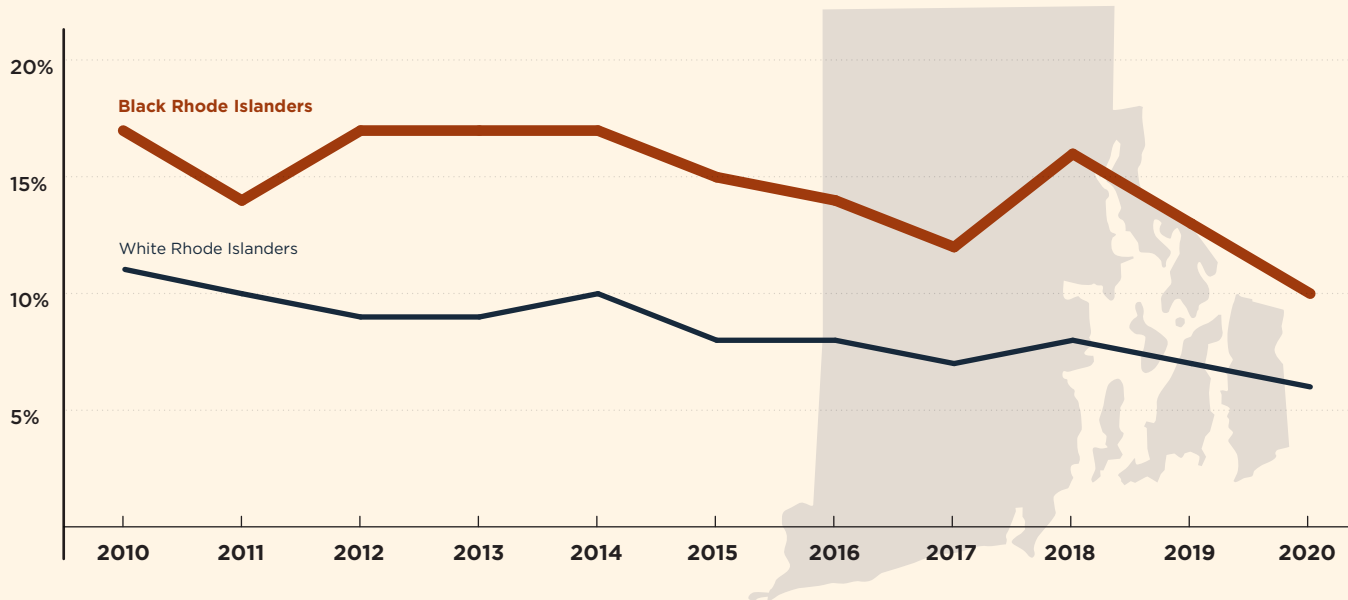
► In 2014, the City of Providence sued Santander Bank for redlining. The lawsuit alleged that Santander increased its mortgage lending in predominantly White neighborhoods (up 25%) and decreased its mortgage lending in minority (e.g., Black and Hispanic) neighborhoods (down 63%).^{29,30} The lawsuit was dropped and Santander provided \$1.3 million which went to the

Providence Community Library, AS220, and the Rhode Island Local Initiatives Support Corp.³⁰

- In 2019, the Rhode Island Commission for Human Rights received **330 reports of violations of the Fair Housing Practices Act**; 21.5% of discrimination claims were related to race.³¹
- In 2020, 1,288 Black and 16,037 White Rhode Islanders submitted a mortgage loan application for a home purchase. **Almost 10% of Black applicants were denied whereas 6% of White applicants were denied.** (See Figure 4 for additional data on historical denial rates.)
- In 2020, *Clinton-Brown et al. v Hardick et al.*, lawsuit alleged that the homeowner (Hardick) violated the Fair Housing Act and the Rhode Island Fair Housing Practices Act because Hardick allegedly refused to sell the home to the Clinton-Brown family **because they are African American** (lawsuit pending as of August 31, 2021).³²
- Similar to national trends during the COVID-19 pandemic, the supply of housing has been constrained in Rhode Island. These **constraints on housing inventory may worsen Black Rhode Islanders' ability to purchase homes.**^{33,34}

FIGURE 4

Percentage of Rhode Island Mortgage Loan Applicant Denials, 2010–2020 for Black & White Rhode Islanders



Sources: Home Mortgage Disclosure Act <https://ffiec.cfpb.gov/data-browser/> and Download Historic HMDA Data | Consumer Financial Protection Bureau (consumerfinance.gov)

RECOMMENDATIONS TO INCREASE & SUSTAIN HOMEOWNERSHIP RATES FOR BLACK RHODE ISLANDERS

There are policies, organizations and programs that can help increase homeownership rates for Black people in our state. For example, Governor McKee's fiscal year 2023 budget proposal includes \$65 million for affordable housing with \$22.5 million allocated for fiscal year 2023.³⁵ Collaborating with and implementing the 7-point plan described by the Black Homeownership Collaborative could be pivotal in addressing some of the barriers to Black homeownership.³⁸ Working with organizations such as the West Elmwood Housing Development Corporation, SWAP, OMNI Development Corporation, ONE Neighborhood Builders and the Housing and Urban Development's Home Investment Partnership Program in Rhode Island, to name a few, could increase homeownership and housing security. Even small amounts of down payment assistance and homeownership education can increase the rate of homeownership.^{36, 37}

Effective policies must address historic and current barriers to homeownership related to intentional racial exclusion and barriers to credit access.⁷ By continuing to identify and work with national and local organizations, as well as government agencies, we can help improve Black homeownership rates in our state. *The following are our specific recommendations:*



INCREASE HOMEOWNERSHIP ACCESS FOR BLACK RHODE ISLANDERS

1 Create financing programs for Black people with lower credit scores. Organizations and banks could partner to create these programs.

► Due to racial biases in credit score determination and credit access, Black applicants have lower median credit scores than White applicants (626 compared to 751) or no credit score at all (21% vs 12%).⁷ While efforts should address racism and discrimination in credit scoring algorithms and practices, intermediate efforts should focus on **creating programs to increase access to mortgage lending (at lower interest rates) for Black applicants** with credit scores of at least 620.^{36, 39}

2 Increase access to small-dollar mortgage assistance (e.g., \$10,000 to \$70,000) for single family properties for Black homeowners and homeowner occupied homes in Black neighborhoods.^{36, 39-41}

► For example, small dollar mortgage assistance programs of \$15,000 could help 1 million Black renters become homeowners and when paired with homebuyer education programs, it could reduce the Black-White homeownership gap by 12%.²⁵ Importantly, it could also help address disparities in credit access by helping to reduce the disproportionately higher mortgage debt of Black homeowners on lower valued properties.¹⁰

► Governor McKee's fiscal year 2023 budget proposes small dollar mortgage assistance and if passed, these funds (\$50 million) would provide \$17,500 to households.³⁵

3 Expand the capacity and strength of local Community Development Financial Institution networks to direct financial resources to groups with historically low homeownership due to structural barriers (e.g., racism).³⁶

4 Expand federal programs offered through the Federal Housing Administration and Housing and Urban Development.^{10, 37}

► For example, target lending to Black people, especially in Black neighborhoods that experienced intentional disinvestment.^{22, 41} This program could have significant reach because in 2019, "37% of Black homebuyers purchased homes using FHA mortgages compared to just 14% of White home buyers" (p. 12).¹⁰



5 Engage in extensive, targeted outreach efforts to increase awareness, visibility and access to down payment assistance and other homeownership assistance programs for Black Rhode Islanders and evaluate program reach.⁴¹

6 Address Black Rhode Islanders' perceived barriers to home ownership.

► The Home Mortgage Disclosure Act data reports suggest that few Black Rhode Islanders apply for mortgage loans to purchase homes. It is critical that we understand and address their perceived barriers to mortgage loan applications.

SUSTAIN HOMEOWNERSHIP RATES FOR BLACK RHODE ISLANDERS

1 Support, expand and/or create programs to help prevent foreclosure risk among people in homeowner occupied neighborhoods at-risk of foreclosure (e.g., neighborhoods where 50% or more of the residents are Black homeowners).^{4,7,41}

2 Support changes in mortgage and lending practices to increase access to mortgage refinancing.

► For example, policies that support mortgage loan modifications (e.g., rate and term) and also **reduce associated paperwork burdens and access burdens** (e.g., credit score restrictions).^{7,10,39,42}

3 Continue COVID-19 pandemic programs (e.g., foreclosure moratoriums and payment deferments) and engage in targeted marketing and outreach efforts for Black homeowners to increase awareness. Evaluate program reach and utilization to ensure Black homeowners are accessing and being served by these programs.³⁹

4 Fund and expand counseling programs for first-time homeowners to help them keep their homes.⁴¹

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