Homeownership is Key to Closing the Racial Wealth Gap

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Overview

The typical Black or Hispanic American household has less than one-fifth the wealth of the typical White household. The racial wealth gap is the result of numerous factors, most of which are rooted in America's legacies of both overt and systemic racism. Households of color in the U.S. have lower median incomes than White households, are less likely than White households to benefit from intergenerational wealth transfers (e.g. inheritances and financial gifts from family), and are less likely than White households to own the homes they live in. Wealth disparity impedes upward mobility and is thus perpetuated across generations.

In the U.S., homeownership is the primary means by which middle-class households build wealth. Homeowners have higher net worth than renters, regardless of race. Therefore, closing the racial homeownership gap by increasing the percentage of Black and Hispanic households that own their homes is critical to making the distribution of wealth more fair. Equalizing the benefits of homeownership is also essential to closing the wealth gap. White households generate higher returns from their housing investments than do African American and Hispanic households, due to factors that include racial segregation, predatory mortgage lending practices, devaluation of property in minority communities, and the heightened likelihood that families with few liquid assets have of experiencing foreclosure or other forms of distressed sale. In order for homeownership to narrow the racial wealth gap, efforts to increase rates of homeownership by household of color must be accompanied by policies that equalize the benefits of homeownership between White and non-White households. Because the benefits of homeownership compound over time, helping young families of color become homeowners is a particularly effective way to close the wealth gap.

What is the Racial Wealth Gap?

White Americans receive a disproportionately large share of income, hold a disproportionately large share of the nation's wealth, and have higher net worth than Black or Hispanic households.

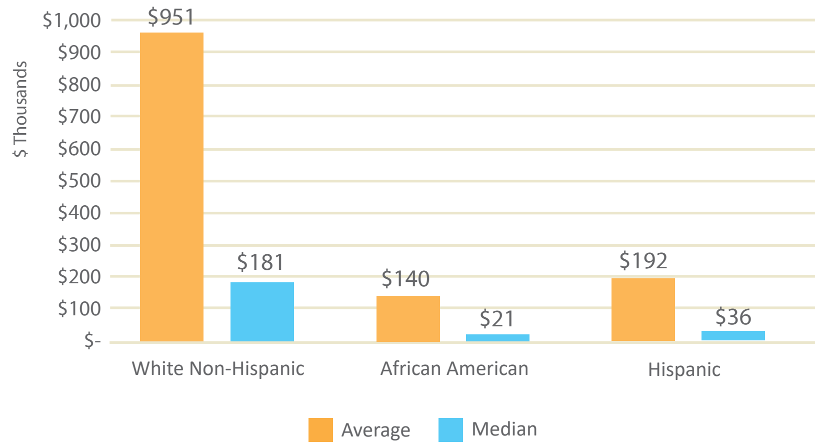
Figure 1 shows *average* and *median* 2019 household net worth by race and ethnicity in the U.S. Median net worth reflects the midpoint of the wealth distribution – 50 percent of households have more wealth and 50 percent of households have less. Average net worth, unlike median net worth, is biased upward by the extreme wealth at the top end of the U.S. wealth distribution. The large difference between median and average wealth for White Americans is due to the fact that, in the U.S., the very wealthy are overwhelmingly White. Eighty-nine percent of families in the wealthiest 1 percent of U.S. households identify as White, while Black and Hispanic families each account for less than 1 percent of the nation's most prosperous households.[1]

Terminology:
Income, Wealth, and Net Worth

Although wealth and income are closely related, they are different concepts. Income refers to the flow of money into a household from sources such as wages and pensions over a period of time. Wealth, in contrast, refers to the value of a household's financial assets such as bank accounts and stock portfolios, and non-financial assets, such as real estate holdings (typically the family home) at a single point in time. A third concept, net worth, refers to the difference between a household's total assets and total liabilities (debts) at a single point in time. As used in this report, the term 'wealth' is synonymous with net worth.

[1] Bricker, J., Goodman, S. Moore, KB & Volz, A. (2020, 28 Sept). Wealth and Income Concentration in the SCF: 1989–2019. FEDS Notes. Washington DC: Board of Governors of the Federal Reserve System. Retrieved from: https://www.federalreserve.gov/econres/notes/feds-notes/wealth-and-income-concentration-in-the-scf-20200928.htm

Figure 1. Average and Median Net Worth by Race/Ethnicity, U.S., 2019



Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

Why Does the Racial Wealth Gap Matter?

Wealth disparities blunt upward mobility and are therefore self-perpetuating. While inequality in the distribution of income is a serious concern and a drag on the national economy,[2] wealth inequality is an even more pressing problem because family assets are often major determinants of a child's future income-earning ability and upward mobility.[3]

Americans are less upwardly mobile than they once were.[4] Although a child's income in adulthood is still highly correlated with that of their parents,[5] the likelihood that a U.S. child will be more prosperous than his or her parents has diminished markedly in recent decades.[6] Inequalities in the distribution of wealth contribute to the lower rates of upward mobility and higher rates of downward mobility experienced by African American families relative to White families.[7]

Families with wealth are better able than those without wealth to invest in their children's upward mobility through education and are better-positioned to provide financial assistance, for example, with a down payment for a house or seed money for a business. Family assets can also provide a financial safety net that enables members to bounce back more quickly from the loss of a job or other setback. The relationship

[2] International Monetary Fund (2016, 22 June). United States: 2016 Article IV Consultation; IMF Mission's Concluding Statement. Retrieved from: https://www.imf.org/en/News/Articles/2015/09/28/04/52/mcs062216 and Bivens, J. (2017). Inequality is slowing U.S. economic growth. Washington DC: Economic Policy Institute. Retrieved from: https://www.epi.org/publication/secular-stagnation/

[3] Grawe, N. (2008) Wealth and Economic Mobility. Washington DC: Economic Mobility Project. Retrieved from: https://www.urban.org/sites/default/files/publication/31206/1001166-wealth-and-economic-mobility.pdf

[4] Chetty, R., Hendren, N., Kline, P., Saez, E. & Turner, N. (2014). Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility. American Economic Review Papers and Proceedings, 104 (5): 141–147.

[5] Chetty, R., Hendren, N., Kline, P., & Saez, E. (2014). Where is the Land of Opportunity?

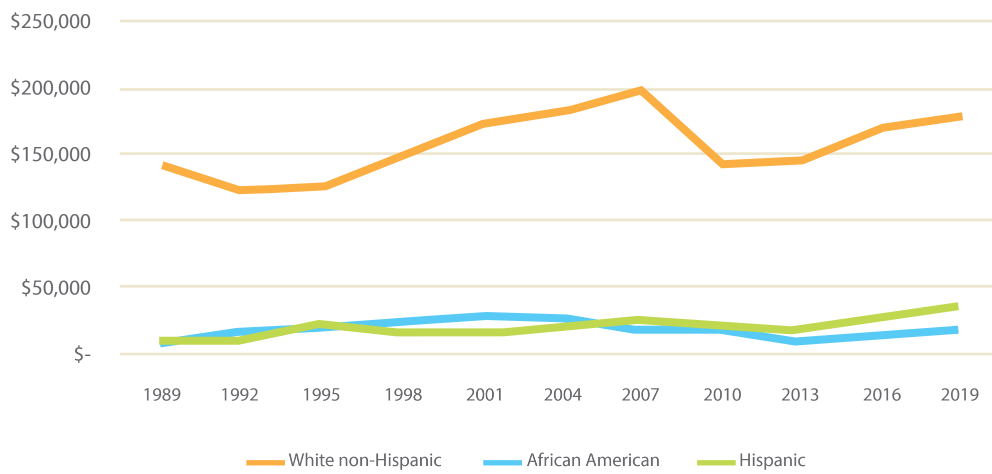
[6] Chetty, R., Grusky, D., Hell, M, Hendren, N., Manduca, R. & Narang, J. (2017). The fading American dream: Trends in absolute income mobility since 1940. Science, 356(6336), 398-406.

[7] Chetty, R., Hendren, N., Jones, M. & Porter, S. (2020). Race and Economic Opportunity in the United States: an Intergenerational Perspective, The Quarterly Journal of Economics, Volume 135, Issue 2, Pages 711–783

between income and overall well-being is both intuitive and well-established.[8] Recent research suggests that wealth may be just as important a determinant of subjective well-being as current income.[9]

America's racial wealth gap has widened over the past three decades. In 1989, White households in the U.S. had median net worth of $143,563, while African American households had median net worth of $8,553 and Hispanic households had median net worth of $9,445, resulting in (median) wealth gaps of $135,010 and $133,618 respectively. In 2019, White households had median net worth of $181,440, $160,710 more than the median net worth of African American households and $145,260 more than the median net worth of Hispanic households (**Figure 2**).

Figure 2. Median Net Worth of Households by Race/Ethnicity and Year, U.S., 2019



Source: Board of Governors of the Federal Reserve System (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

Contributors to the Racial Wealth Gap

Much of America's early wealth derived from land and labor misappropriated from people of color by White settlers. The racial wealth gap of today arises from the unequal starting positions of children of color relative to White children and to the systemic and institutionalized discrimination that people of color continue to confront in American society. With this foundational principle in place, this section of the report explores other, more proximal contributors to wealth gap such as age, income, and rates of homeownership.

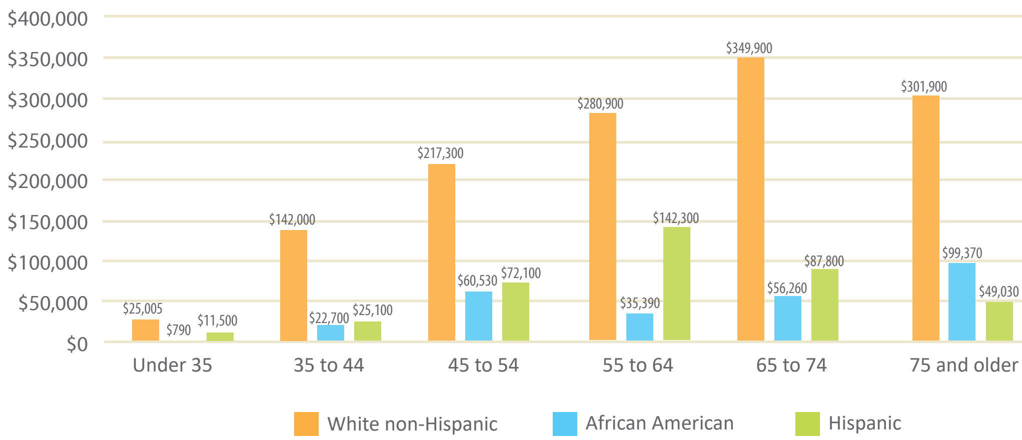
Age

Regardless of race or ethnicity, wealth tends to increase with age, peak around age 65, and then gradually decline as assets are drawn down in retirement (**Figure 3**). Although households of different races show similar patterns of wealth accumulation over the life cycle, there are vast disparities in the amount of wealth amassed.

8 Killingsworth MA.(2021, 6 January). Experienced well-being rises with income, even above $75,000 per year. Proc Natl Acad Sci U S A.118(4):e2016976118. Retrieved from: https://pubmed.ncbi.nlm.nih.gov/33468644/

9 D'Ambrosio, C., Jäntti, M. & Lepinteur, A. (2020) Money and Happiness: Income, Wealth and Subjective Well-Being. Soc Indic Res 148, 47–66 and Grawe, N. (2008) Wealth and Economic Mobility. Washington DC: Economic Mobility Project. Retrieved from: https://www.urban.org/sites/default/files/publication/31206/1001166-wealth-and-economic-mobility.pdf

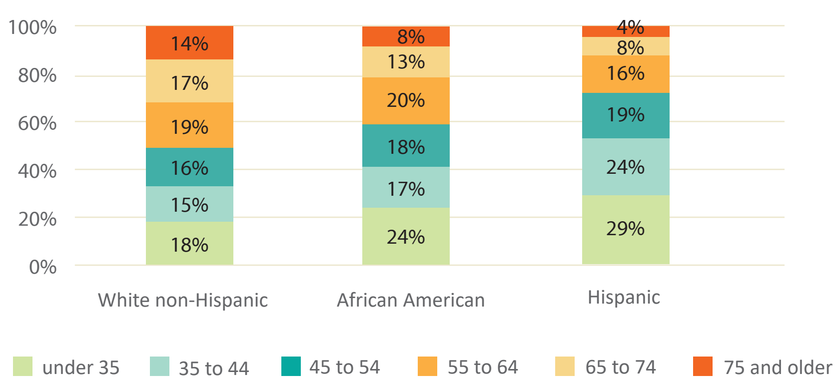
Figure 3. Median Net Worth by Race/Ethnicity and Age, U.S., 2019



Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

The U.S. is currently in the midst of a profound demographic shift, powered by the confluence of two major trends – the advancing age of the majority-White baby boom generation and the increasing diversity of the younger generations.[10] **Figure 4** shows how age distributions differ across races and ethnicities in the U.S. Thirty-one percent of White households are headed by someone 65 or older compared to 21 percent of African American households and 12 percent of Hispanic households. Since wealth peaks relatively late in life and older Americans are more likely than younger Americans to be White, the racial wealth gap is linked to the racial generation gap.

Figure 4. Households by Race and Age of Reference Person*, U.S., 2019



Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

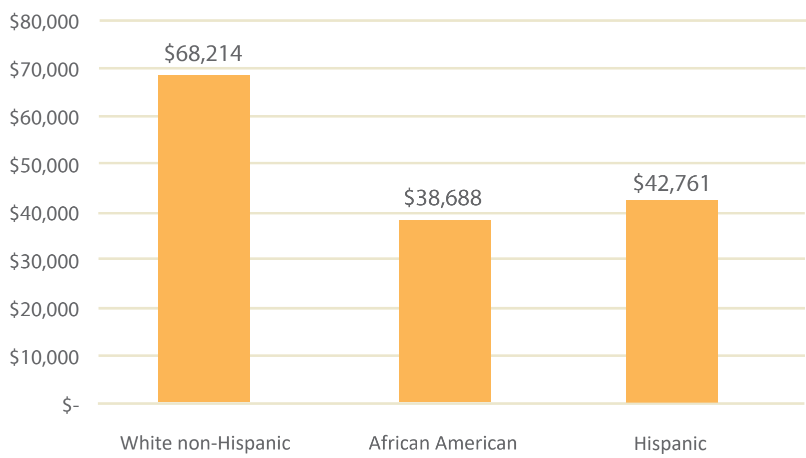
*The Survey of Consumer Finances (SCF) interviews one member of each household surveyed. This individual is known as the 'reference person.' Prior to the 2019 SCF, this individual was referred to as the 'household head.'

[10] White non-Hispanic people constitute roughly 72 percent of the Baby Boom (1946-1964) generation and 50 percent of Gen Z (2000-present). See: https://money.cnn.com/interactive/economy/diversity-millennials-boomers/

Income

Racial disparities in the distribution of income contribute to the racial wealth gap. **Figure 5** depicts 2019 median household income by race/ethnicity.

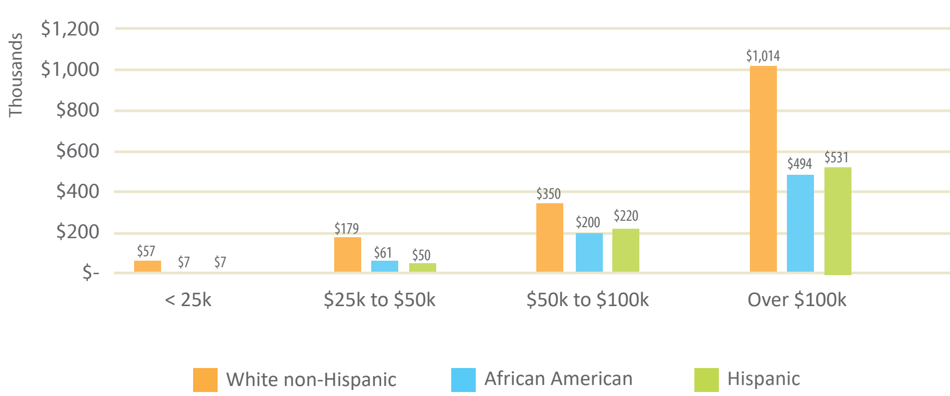
Figure 5. Median Household Income by Race/Ethnicity, U.S., 2019



Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

Although income disparities contribute to the wealth gap, significant inequality remains evident when net worth is compared across races and within the same income bands, as in **Figure 6**.

Figure 6. Median Household Net Worth by Race/Ethnicity and Income, U.S., 2019



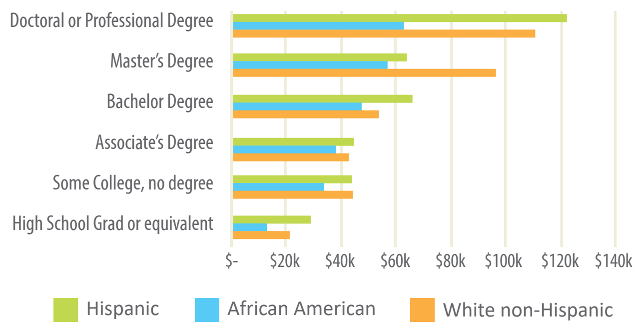
Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

While income is often regarded as a precursor to wealth, the relationship between income and wealth is actually bidirectional: income makes it possible to acquire assets and assets provide access to opportunities that help to determine income.

Education

Income disparities are driven, in part, by differences in educational attainment. Degrees, credentials, and the status of school(s) attended all impact lifetime earnings. Jobs requiring more education also tend to be more stable in the face of economic disruptions like recessions and pandemics.[11] **Figure 7** shows average 2019 earnings by race/ethnicity and educational attainment.

Figure 7. Average Earnings by Race/Ethnicity and Educational Attainment, U.S., 2019

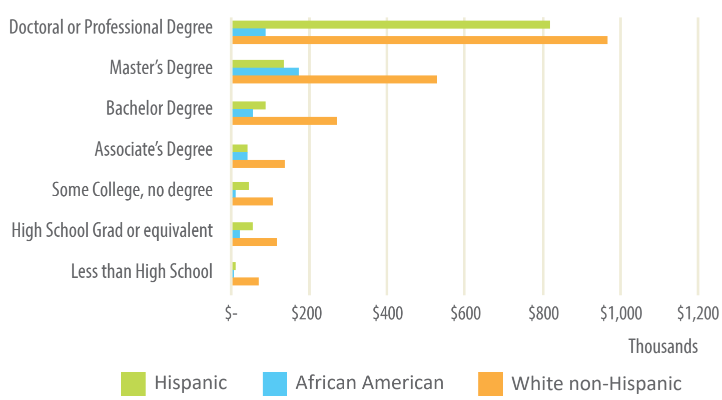


Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

Because wealthier households have better access to high-quality educational opportunities, including high-performing public schools and elite colleges, family wealth helps to determine how far offspring go in school and the professional connections there are able to forge while there.

Figure 8 shows the relationship between median wealth and educational attainment for White, African American, and Hispanic households in the U.S. Like earnings, wealth increases with educational attainment, but racial disparities in wealth are even more pronounced than income disparities.

Figure 8. Median Net Worth by Race/Ethnicity and Educational Attainment, U.S., 2019



Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

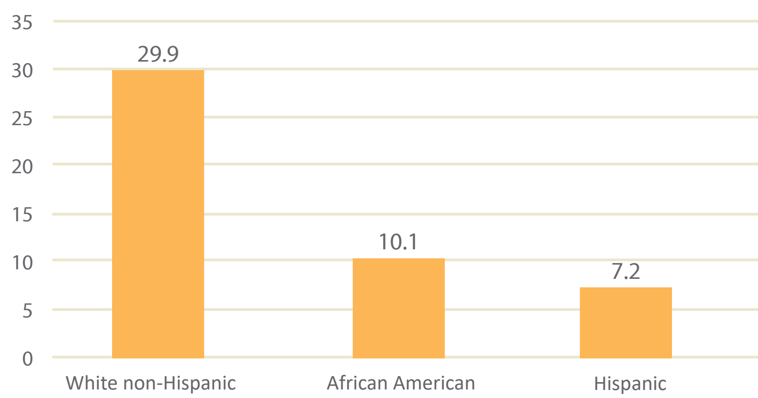
[11] Mineo, L. (2021, 3 June). Racial wealth gap may be a key to other inequities. Harvard Gazette. Retrieved from: https://news.harvard.edu/gazette/story/2021/06/racial-wealth-gap-may-be-a-key-to-other-inequities/

Inheritances and other Intergenerational Financial Support

Children tend to follow the wealth trajectory established by their parents. This is due both to the many advantages that wealth can confer – including private education and social connections – and to the role played by inheritances and other forms of family financial support in the accumulation of assets.[12]

White families are more likely to receive inheritances, gifts and other family support than African American or Hispanic families, giving them a head start on the accumulation of additional assets through investments and homeownership.[13] These 'intergenerational transfers' account for up to 50 percent of total household wealth in the U.S.[14] and are the single largest contributor to the racial wealth gap.[15]

Figure 9. Received an Inheritance (%) by Race/Ethnicity, U.S., 2019



Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

Almost 30 percent of White families reported having received an inheritance, compared to just over 10 percent of African American families and 7 percent of Hispanic families (Figure 9). The inheritances received by White families also tend to be larger than those received by African American or Hispanic families.[16]

Intergenerational transfers also impact homeownership, a topic addressed in more depth later in this report. Numerous studies have found strong correlations between parental wealth a child's likelihood of owning a home.[17] In many parts of the U.S., growth in residential property prices has outpaced growth in wages, making access to family wealth an increasingly important factor in the ability to buy a home.[18]

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[12] Pfeffer, F.T. and Killewald, A. (2018). Generations of Advantage. Multigenerational Correlations in Family Wealth." Social Forces 96(4):1411–42 and Killewald, A. and Brielle, B. (2018). Falling Behind: The Role of Inter- and Intragenerational Processes in Widening Racial and Ethnic Wealth Gaps through Early and Middle Adulthood. Social Forces 97(2):705–40.

[13] Bhutta, Neil, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu (2020). "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," FEDS Notes. Washington: Board of Governors of the Federal Reserve System. Retrieved from: https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm

[14] Bastani, S. and Waldenstrom, D. (2019). Salience of Inherited Wealth and the Support for Inheritance Taxation. CESifo Working Paper No. 7482. And Feiveson, L. and Sabelhaus, J. (2018). How Does Intergenerational Wealth Transmission Affect Wealth Concentration? FEDS Paper No. 2018-06-01.

[15] Hamilton, D. & Darity, W. (2010). Can 'Baby Bonds' Eliminate the Racial Wealth Gap in Putative Post-Racial America?. The Review of Black Political Economy. 37. 207-216. 10.1007/s12114-010-9063-1.

[16] Bhutta, N., Chang, AC, Dettling, LJ, & Hsu, J. (2020). Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances. FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 28, 2020. Retrieved from: https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm

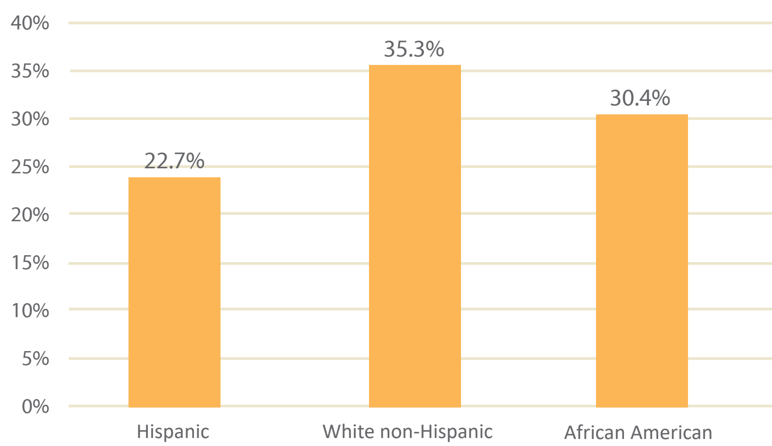
[17] Jung Choi Jun Zhu Laurie Goodman Bhargavi Ganesh Sarah Strochak August 2, 2018 https://www.urban.org/urban-wire/homeownership-inherited-tale-three-millennials July 2018 (updated January 2019) Millennial Homeownership: Why Is It So Low, and How Can We Increase It? ON FILE

[18] Adkins, L and Konings, M. (2020, 9 November). Inheritance, not work, has become the main route to middle-class home ownership. The Guardian. Retrieved from: https://www.theguardian.com/commentisfree/2020/nov/09/inheritance-work-middle-class-home-ownership-cost-of-housing-wages

Retirement Accounts and Employer Plans

Americans help ensure their financial security in retirement by contributing to individual retirement accounts (IRAs) and by participating in employer-sponsored retirement plans. These retirement accounts are also a significant source of middle class wealth. In the U.S., households of color are less likely than White households to have IRAs or to have access to employer-sponsored retirement plans.[19] African American and Hispanic workers are also less likely than White workers to participate in employer-sponsored plans when they are made available.[20] **Figure 10** shows the percent of U.S. workers that participate in an employer-sponsored by race/ethnicity.

Figure 10. Employer-Provided Retirement Plan Coverage (Share of Workers) by Race/Ethnicity, U.S., 2019

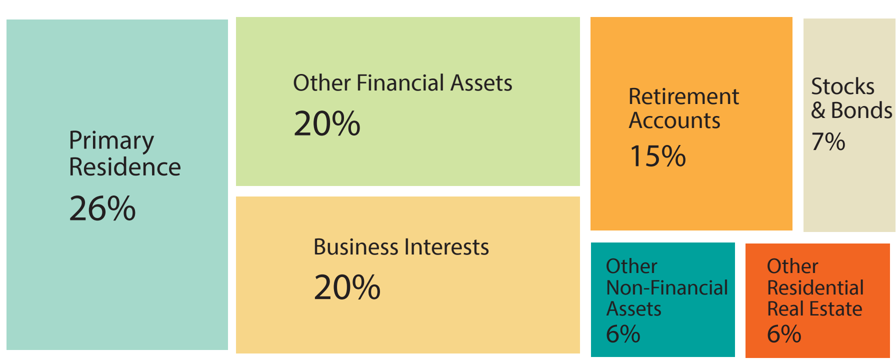


Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

Homeownership

The family home is the single largest component of wealth for most middle- and modest-income American families. On average, primary residences account for 26 percent of assets held by U.S. households (**Figure 11**). Differences in rates of homeownership contribute significantly to the racial wealth gap.

Figure 11. Asset Mix of the Typical American Household, U.S., 2019



Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

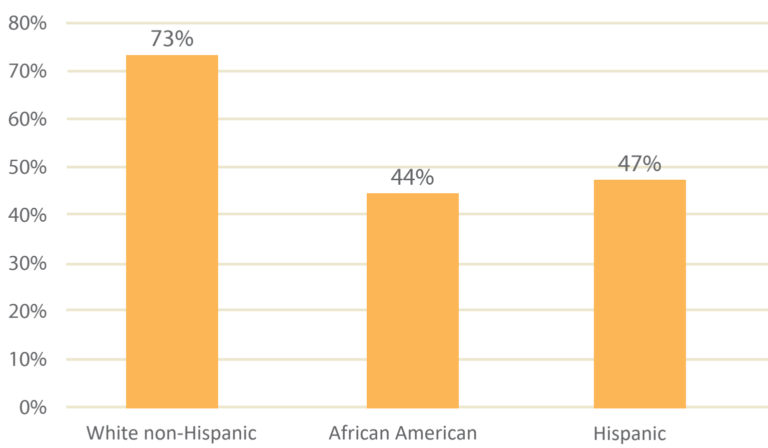
19 Bhutta, Neil, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu (2020). Disparities

20 Bhutta, Neil, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu (2020). Disparities.

White households have higher rates of homeownership than Black or Hispanic households (**Figure 12**) and homes owned by White families tend to be worth more than homes owned by Black and Hispanic families.[21] Disparities in homeownership rates have their roots in centuries of legal and illegal discrimination and are perpetuated to this day by institutionalized racism in diverse arenas including employment, lending, housing, and even public policy. Racial differences in home value are similarly rooted in past racist policies and perpetuated by present-day systemic bias.[22]

Mid-twentieth century housing reforms increased homeownership rates across the board, but, due to biased implementation and discriminatory practices such as redlining,[23] these policies benefitted White households more than households of color.[24] Modern-day practices, such as race-biased appraisals,[25] and public policies like capping the value of homes that can be purchased with federal HOME down payment assistance well below what some families can afford to pay, limit the ability of some non-White households to build wealth through homeownership.[26]

Figure 12. Homeownership Rate by Race/Ethnicity, U.S., 2019



Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

Homeowners hold significantly more wealth than renters, regardless of race or ethnicity. White homeowners have 36 times the median wealth of White renters, while the median wealth of African American homeowners exceeds that of African American renters by almost 63-fold (**Figure 13**). The median net worth of an African American homeowner is almost 14 times that of a White renter.

[21] Perry, AM, Rothwell, J, and Harshbarger, D. (2018). The devaluation of assets in Black neighborhoods. The case of residential property. Washington DC: Brookings Institution. Retrieved from: https://www.brookings.edu/research/devaluation-of-assets-in-black-neighborhoods/

[22] Perry, AM, Rothwell, J, and Harshbarger, D. (2018). The devaluation.

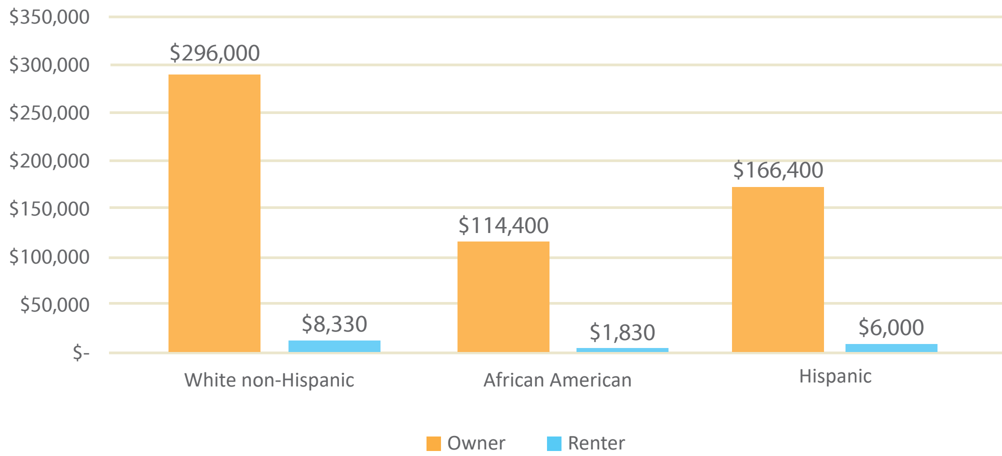
[23] The once government-sanctioned practice of outlining neighborhoods with large African American populations in red to warn off mortgage lenders.

[24] Hamilton, D., & Famighetti, C. (2019). State of the Union: The poverty and inequality report. Pathways Magazine.

[25] Freddie Mac (2021, September). Racial and Ethnic Valuation Gaps In Home Purchase Appraisals. Retrieved from: https://www.freddiemac.com/research/insight/20210920-home-appraisals

[26] Perry, AM. (2021, 2 February). How Invidious Discrimination Works and Hurts: An Examination of Lending Discrimination and Its Long-Term Economic Impacts on Borrowers of Color. Testimony Submitted to U.S. House of Representatives Committee on Financial Services Subcommittee on Oversight and Investigations. Retrieved from: https://www.brookings.edu/wp-content/uploads/2021/02/WrittenTestimony_APerry_2.24.21_Final.pdf

Figure 13. Median Net Worth by Race/Ethnicity and Tenure, U.S., 2019



Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

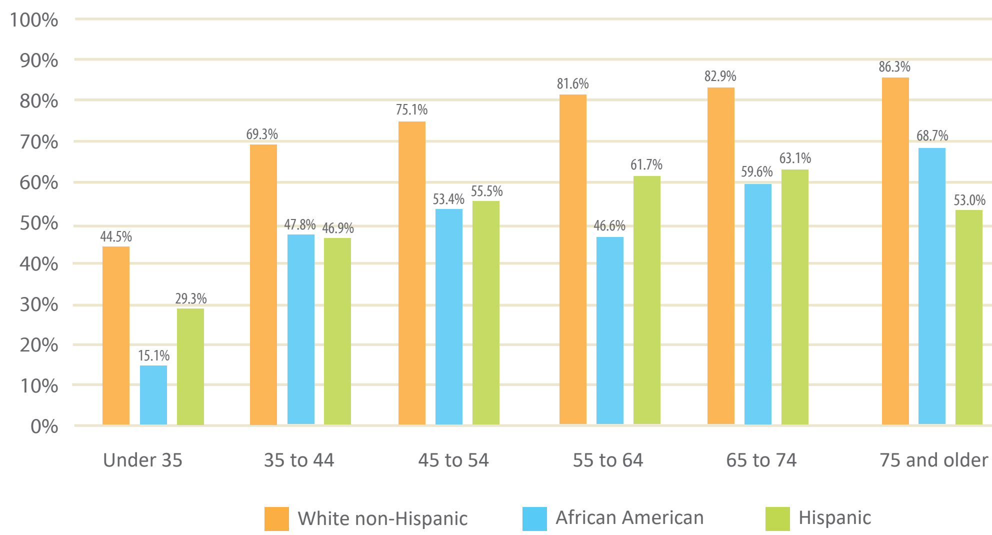
As noted earlier, households typically accumulate assets during their working years and those assets usually appreciate over time, thus, older households tend to be wealthier than younger households. However, even within age groups, White households have higher rates of homeownership (**Figure 14**) and more total assets than African American or Hispanic households (**Figure 13**).

Like wealth, rates of homeownership increase with age, regardless of race or ethnicity. Millennials are less likely than any post-WWII generation to own their own home and this is particularly true for young households of color.[27] Even among very young families, White homeownership rates exceed those of Hispanic families by almost 50 percent and are almost three times higher than those of African American families (**Figure 14**).

Households that take maximum advantage of the compounding nature of wealth by investing in homeownership early in life help secure a lifetime pathway of asset-building and financial security. Homeowners build home equity through regular mortgage payments. In addition, residential real estate typically appreciates over time. If the home is purchased with a fixed-rate mortgage, homeowners also benefit from housing payments that remain stable while inflation puts upward pressure on other prices (including rent). Thus, becoming a homeowner early in life increases homeownership's potential lifetime benefits.

[27] Hamilton, D., & Famighetti, C. (2019). State of the Union: The poverty and inequality report. Pathways Magazine.

Figure 14. Homeownership Rate by Race/Ethnicity and Age, U.S., 2019



Source: Board of Governors of the Federal Reserve System (U.S.). (2019). Survey of consumer finances. Washington, D.C: Board of Governors of the Federal Reserve System.

Like the relationship between homeownership and income, the relationship between homeownership and wealth is bidirectional. Homeownership is both a source of wealth and an advantage of already having wealth. Purchasing a home instead of renting one 'banks' income in the family home. Because real estate generally grows in value over time, homeownership can yield strong financial returns and is a primary means by which U.S. families build wealth.[28]

Buying a home usually requires established credit and cash up-front, making homeownership much more accessible to households that already have wealth. According to Freddie Mac, 25 percent of homebuyers receive down payment assistance in the form of gifts or loans from relatives or friends.[29] Research shows that African American families are less likely than White families to receive down payment assistance from family.[30] Families that start out with assets (or access to family assets) have a head start on wealth-building through homeownership, further compounding their advantage and contributing to racial wealth disparity.

Equalizing the Benefits of Homeownership for White and non-White Households

In order for homeownership to narrow the racial wealth gap, homeownership rates among African American and Hispanic households must increase ***and*** the inequities that make homeownership more beneficial to White households must be remedied.

[28] Goodman, Laurie S., and Christopher Mayer. (2018). "Homeownership and the American Dream." Journal of Economic Perspectives, 32 (1): 31-58.

[29] Khater, S., Kiefer, L. & Atreya, A. (7 May, 2019). Fulfilling the Dream of Homeownership: How Do Families and Others Play a Role? Freddie Mac. Retrieved from: https://www.freddiemac.com/research/insight/20190507-the-dream-of-homeownership

[30] Kerwin, KC and Hurst, E (2002) The Transition to Home Ownership and the Black-White Wealth Gap. The Review of Economics and Statistics 84(2): 281–297.

Research has demonstrated that White households derive greater benefits from homeownership than households of color.[31] Houses sold in predominately minority neighborhoods tend to be undervalued relative to those in predominately White neighborhoods[32] and are more likely to be foreclosed upon or sold for less than they are worth due to financial distress.[33] The median home value for White homeowners in the 2019 Survey of Consumer Finances was $230,000, while homes owned by African American and Hispanic respondents had median values of $150,000 and $200,000, respectively.[34] These disparities are linked to income inequality and originate from the same discriminatory practices that gave rise to the homeownership gap. Racial inequities in the return on investment in homeownership were exacerbated by the 2007 housing crisis, which profoundly depleted middle-class wealth, particularly in communities of color, and is perpetuated by present-day social and institutional inequities including predatory lending practices that target households of color, segregation and the resulting devaluation of property in minority neighborhoods, and institutionalized racism.

Racist government policies employed during the mid-20th century crippled the ability of households of color to build wealth through homeownership and gave rise to present-day racial disparities in home value. In addition to discouraging investment in entire minority neighborhoods, the Federal Housing Administration (FHA) routinely denied mortgages and mortgage insurance to African American applicants and concentrated lending in White suburbs.[35] [36]

Despite these barriers, both the racial homeownership and wealth gaps narrowed following passage of the 1968 Fair Housing Act.[37] The subprime crisis of 2007 and ensuing recession, which took a disproportionate toll on households of color, eliminated these gains. Between 2007 and 2009, African American households lost 12 percent of the equity in their homes, compared to 9 percent for White households.[38] This differential impact was amplified by the fact that the primary residence constitutes a larger share of wealth for African American households than it does for White households.[39]

During the housing boom of the early 2000's, lenders and mortgage brokers targeted subprime loans with risky and undesirable features such as pre-payment penalties to populations they considered less financially astute, including minority and immigrant households. In addition to carrying significantly higher interest rates than prime loans, the mortgage products aggressively marketed to minority buyers often had high closing costs or adjustable interest rates that started low but shot up after the buyers were in the home. Marketing predatory mortgages to households of color, a practice referred to as 'reverse redlining,' set minority households up for catastrophic losses when the housing bubble burst in 2007.[40]

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31 https://www.demos.org/research/racial-wealth-gap-why-policy-matters

32 Anderson, D. (2021, 3 May). The Price of Racial Bias: Homes in Black Neighborhoods Are Valued at an Average of $46,000 Less Than Similar Homes in White Neighborhoods. Retrieved from: https://www.redfin.com/news/undervaluation-homes-black-versus-white-neighborhoods/

33 Kermani, A. and Wong, F. (2021, September). Racial Disparities in Housing Returns. National Bureau of Economic Research. Retrieved from: http://www.nber.org/papers/w29306

34 Bhutta, N., Chang, AC, Dettling, LJ, & Hsu, J. (2020). Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances. FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 28, 2020.
Retrieved from: https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm

35 Rothstein, R. (2012, 23 January). A comment on Bank of America/Countrywide's discriminatory mortgage lending and its implications for racial segregation. Economic Policy Institute. Retrieved from: https://www.epi.org/publication/bp335-boa-countrywide-discriminatory-lending/

36 Reiss, D. (2017). The Federal Housing Administration and African-American Homeownership. Journal of Affordable Housing & Community Development Law, 26(1), 123–150. https://www.jstor.org/stable/26408210

37 Baptiste, N. (2014, October 13). Staggering Loss of Black Wealth Due to Subprime Scandal Continues Unabated. The American Prospect. Retrieved from: https://prospect.org/justice/staggering-loss-black-wealth-due-subprime-scandal-continues-unabated/

38 White, G.B. (2015, 24 June). The Recession's Racial Slant. The Atlantic. Retrieved from: https://www.theatlantic.com/business/archive/2015/06/black-recession-housing-race/396725/

39 White, G.B. (2015, 24 June). The Recession's Racial Slant.

40 Powell, M. (2009, 6 June). Bank Accused of Pushing Mortgage Deals on Blacks. The New York Times. Retrieved from: https://www.nytimes.com/2009/06/07/us/07baltimore.html?pagewanted=all&_r=0

Subprime loans were designed for people with low incomes and/or bad credit and their higher interest rates are intended to offset the increased risk of default. However, during the housing boom, subprime loans were given to minority households, including middle and upper-income families that could have qualified for prime mortgages, at disproportionately high rates.[41] During the boom, African American and Hispanic applicants were over twice as likely as White applicants to be denied a mortgage, and, when approved, were 2.4 times more likely to receive a subprime loan.[42] In fact, African American and Hispanic borrowers with income over $200,000 were more likely to receive a subprime loan than were White families making less than $30,000 a year.[43] At the height of the housing bubble, roughly one half of African American and Hispanic buyers and one-in-five White homeowners held subprime loans. Over 60 percent of home-owners who received subprime loans during that period were actually eligible for conventional loans with lower rates and better terms.[44]

Holders of subprime loans bore the brunt of the 2007 collapse in home prices and the subsequent recession. During the crash, households of color were more likely than White households to experience foreclosure.[45] Almost 8 percent of African American and Hispanic families lost their homes to foreclosure, compared to under 5 percent of White families.[46] The housing crash and Great Recession also cost households of color larger shares of overall wealth. The typical White family lost 16 percent of its assets during this time, while the typical African American family lost over half its assets and the typical Hispanic family saw its wealth decline by two-thirds.[47] These disparities remain evident even after accounting for differences in income: high-income African American homeowners were 80 percent more likely than their White counterparts to lose their homes during the recession.[48] Minority neighborhoods targeted by unscrupulous mortgage originators experienced foreclosures, bankruptcies, vacant and derelict houses, and declining property values as a result of the crisis.

Although the housing boom and bust of the early 2000's were over a decade ago, their impacts are still being felt. Foreclosures eliminate housing wealth and impair credit, making it harder and more expensive to buy another home in the future. A 2015 report commissioned by the ACLU concluded that by 2031, the typical White household will have 31 percent less wealth and the typical African American household will have 40 percent less wealth than they would have had the Great Recession not occurred.[49] The impacts of these losses will be felt for generations to come, due to the role family assets and intergenerational wealth transfers play in wealth-building by subsequent generations.

41 Badger, E. (August 16, 2013). The Dramatic Racial Bias of Subprime Lending During the Housing Boom. Bloomberg CityLab. Retrieved from: https://www.bloomberg.com/news/articles/2013-08-16/the-dramatic-racial-bias-of-subprime-lending-during-the-housing-boom

42 Badger, E. (August 16, 2013). The Dramatic Racial Bias of Subprime Lending

43 Badger, E. (August 16, 2013). The Dramatic Racial Bias of Subprime Lending

44 Rothstein, R. (2012, 23 January). A comment on Bank of America/Countrywide's discriminatory mortgage lending and its implications for racial segregation. Economic Policy Institute. Retrieved from: https://www.epi.org/publication/bp335-boa-countrywide-discriminatory-lending/

45 Bandell, B. (2012, 27 Jan). Lenders targeted minorities with subprime loans. South Florida Business Journal. Retrieved from: https://www.bizjournals.com/southflorida/print-edition/2012/01/27/lenders-targeted-minorities-with.html?page=a

46 Bocian, DG, Li, W. and Ernst, KS (2010, 18 June). Foreclosures by Race and Ethnicity: The Demographics of a Crisis CRL Research Report. Retrieved from: https://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-executive-summary.pdf

47 Kochhar, R., Fry, R. and Taylor, P. (2011). Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics. Pew Research Center.

48 Baptiste, N. (2014, October 13). Staggering Loss of Black Wealth Due to Subprime Scandal Continues Unabated. The American Prospect. Retrieved from: https://prospect.org/justice/staggering-loss-black-wealth-due-subprime-scandal-continues-unabated/

49 Burd-Sharps, S. and Rasch, R. (2015, June). Impact of the US Housing Crisis on the Racial Wealth Gap Across Generations. Social Science Research Council. Retrieved from: https://www.aclu.org/sites/default/files/field_document/discrimlend_final.pdf

Recommendation: Narrow the Racial Homeownership Gap *and* Equalize the Benefits of Homeownership to Reduce Wealth Inequality

A family's home is typically one of its most valuable assets. White households in the U.S. have more wealth and higher rates of homeownership rates than Black or Hispanic households. Closing the racial homeownership gap is therefore an important step towards closing the racial wealth gap. So too is equalizing the benefits of homeownership between White and non-White households by remedying the systemic bias that devalues homes in minority neighborhoods. The financial benefits of homeownership – stable housing payments and equity appreciation – compound over time. Therefore, increasing the rate of homeownership among young families of color is a particularly effective strategy for narrowing the wealth gap.

Conclusion

The racial wealth gap is the result of many factors and is perpetuated by the systemic racism that remains prevalent in American society. Differences in rates of homeownership did not create the wealth gap nor is simply increasing homeownership by Black and Hispanic families sufficient to close the gap. If America is to narrow its racial wealth gap, two actions are critical. First, we must increase access to homeownership for households of color. Second, we must increase the benefits of homeownership for people of color by eliminating extractive practices in mortgage lending and home buying that diminish the wealth-building benefits of homeownership for Black and Hispanic homeowners.

Appendix

Unless otherwise stated, the data in this analysis is from the 2019 Survey of Consumer Finances (SCF), accessed via the Survey Documentation and Analysis (SDA) system version 4.1.3.. SDA is a set of programs developed at UC Berkeley for documenting and analyzing survey data online.[50] The SCF is a cross-sectional survey of American households conducted every three years by the Federal Reserve Board. The SCF produces a nationally representative sample of U.S. households that contains detailed data on their assets, liabilities, income, and demographic characteristics. The 2019 data used in this report are the most recent SCF data available; but they do not reflect the effects of the COVID-19 pandemic on family finances.

Two features of the SCF – the unit of analysis and categorization of race/ethnicity – impact the way demographic data is presented in this report. The unit of analysis for the SCF is not the household, but rather the 'primary economic unit' (PEU), which is often a household; but may also be a subset of a household. Thirteen percent of PEUs in the 2016 CSF dataset were in households that also included non-PEU members. A PEU is similar to a family in that it is composed of "an economically dominant single individual or couple … and all other individuals in the household who are financially interdependent with that individual or couple." The representative of the PEU who is interviewed for the SCF is called the respondent. The respondent is typically the individual in the PEU with the most knowledge of family finances.[51]

50 https://sda.berkeley.edu/

51 Hanna, S. & Kim, KT & Lindamood, S. (2018). Behind the Numbers: Understanding the Survey of Consumer Finances. Journal of Financial Counseling and Planning. 29.10.1891/1052-3073.29.2.410.

Publicly available data from the Survey of Consumer Finances includes four possible racial designations: Hispanic, White non-Hispanic, African American, and 'Other'. 'Other' is an extremely heterogeneous category that includes Asian Americans, Pacific Islanders, Native Americans and people of multiple races.[52] For simplicity, the present analysis uses just three categories: Hispanic of any race, non-Hispanic White, and non-Hispanic African American. It is also important to note that a family's race and ethnicity is assumed to be the same as that of the respondent.

More information on the SCF can be found at: https://www.federalreserve.gov/econres/scfindex.htm

52 Hanna, S. & Kim, KT & Lindamood, S. (2018). Behind the Numbers

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