



# How do racial inequities limit homeownership opportunities?

Black and Hispanic/Latino households face unique barriers to homeownership that prevent access to the beneficial outcomes associated with homeownership, such as wealth building, improved health and higher educational attainment. Historically, structural and institutional obstacles faced by racial and ethnic minorities compounded over time to produce these inequities.

## This evidence brief:

- Reviews the history of racial inequities in housing.
- Highlights the key barriers that Black and Hispanic/Latino households confront in accessing affordable homeownership and attaining the positive outcomes of homeownership.
- Shares how Habitat for Humanity of Gaston County responds to these barriers to promote homeownership.

### A brief history of racial inequities in housing

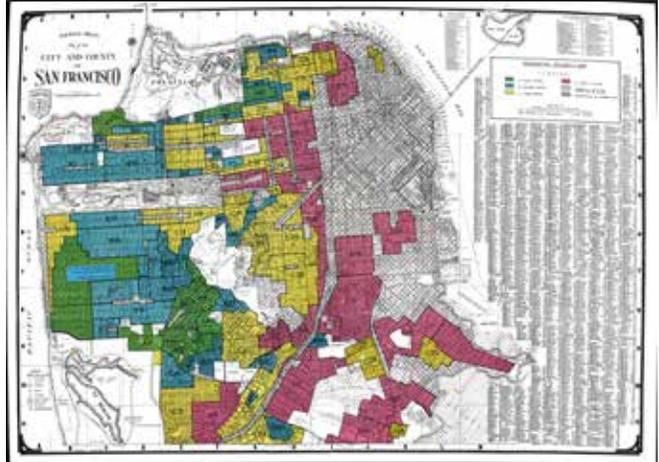
The roots of racial inequities in the United States run long and deep, bolstered by a web of government policies and private actions that mutually reinforced the exclusion of people of color from homeownership. In 1910, Baltimore, Maryland, enacted the first formal local ordinances that created all-Black and all-white street blocks in response to the growing Black migration from the South. These ordinances spread across the U.S. until the Supreme Court outlawed the practice in 1917.<sup>1</sup> Other creative mechanisms to enforce racial discrimination ensued. While these acts were largely targeted toward Black households, the discrimination impacted all homebuyers of color, including Hispanics/Latinos. Less research exists on the historical inequities targeted toward Hispanic/Latino households.

#### LIMITED ACCESS TO MORTGAGES

Starting in the 1930s, the Federal Housing Administration introduced low-down-payment mortgages with longer repayment periods and began to insure home mortgage loans made by private lenders. The FHA, however, refused to guarantee mortgages for homes in communities where households of color lived, or those communities redlined in the color-coded maps developed by the federal Home Owners' Loan Corporation. The maps redlined neighborhoods occupied predominantly by households of color or situated close to unhealthy environmental hazards (i.e., "smoke, odors, and fog") and deemed them financially risky for lending. Private lenders followed their lead and refused to extend mortgages to Black potential homebuyers.

After World War II, Black homebuyers were further denied the homeownership opportunities offered by the government and largely afforded to white homebuyers. The federal government subsidized homeownership to returning veterans in the form of guaranteed low-interest home loans with no down payment. Private lenders extended the loans and, as before, were free to refuse the loans to Black borrowers. Most did, denying loans for homes in Black neighborhoods.<sup>2</sup> Black homebuyers were thus unable to secure loans in the only communities in which they could live. Between 1934 and 1962, households of color received just 2% of all government-backed mortgages.<sup>3</sup>

**FIGURE 1: EXAMPLE OF THE ORIGINAL 1938 HOME OWNERS' LOAN CORPORATION MAP OF SAN FRANCISCO, WHERE THE SCALE FROM MOST TO LEAST DESIRABLE AREAS GOES FROM GREEN TO BLUE TO YELLOW TO RED. (SOURCE: MAPPING INEQUALITY PROJECT, UNIVERSITY OF RICHMOND)**



#### SEGREGATED COMMUNITIES

To maintain the desirability and homogeneity of the "better" neighborhoods, the FHA endorsed the use of natural and artificial barriers, zoning ordinances, and restrictive covenants. These barriers would purportedly minimize encroachment by "business and lower social occupancy" and included, for example, green spaces in neighborhoods and busy and wide roads. Local governments implemented zoning ordinances that maintained only single-family residential developments in predominantly white communities. The zoning ordinances encouraged multifamily buildings and commercial and industrial facilities to be located within or near communities predominantly of households of color.<sup>4</sup>

Furthermore, the FHA recommended strengthening zoning ordinances with the inclusion of racially restrictive covenants in the deeds of the homes it insured, prohibiting homeowners from reselling their homes to Black buyers.<sup>5</sup> The FHA even required these deed restrictions in emerging subdivisions that it subsidized to ensure that only white families could live in them.<sup>6</sup> These racially restrictive covenants were outlawed in 1948, but not until 1968 was the policy of insuring mortgages with racially restrictive covenants fully nullified by the FHA.<sup>5</sup>



**Difficulties in accessing credit made keeping up with home maintenance difficult or impossible for many homeowners of color, resulting in disinvestment that further widened the racial gap in wealth-building through homeownership.**

Even though racially restrictive covenants were outlawed, Black families were further confined to living in heavily segregated and redlined neighborhoods by ever-present violence and intimidation. For those Black homebuyers able to sidestep racially restrictive policies and move into white neighborhoods, social enforcement through white mob violence and intimidation, which were heavily reinforced by local authorities, forced many to abandon their homes or avoid moving into white neighborhoods altogether.

The passage of the Fair Housing Act in 1968 outlawed racially restrictive covenants and other racially discriminatory practices, but what rose in its stead still dampened homeownership opportunities for Black homebuyers. Rather than restrictions being based on race, exclusionary zoning set requirements – such as minimum lot and home sizes – that drove up housing production costs and limited housing supply.<sup>7</sup> Excessive zoning increases the real house price by 56% above real construction costs, and because Black homebuyers disproportionately have low incomes, the diminishing availability of affordable housing disparately affects them.<sup>8</sup>

### **RENT EXTRACTION**

Black homebuyers were often forced to pay much higher rents or buy homes at inflated prices. Many also lost their homes because of contract buying. All three practices served to strain incomes and diminish the wealth accumulation potential of Black households. Segregated in disinvested neighborhoods with increasing density, Black families were forced to pay higher rents than in comparable nonsegregated areas as the limited rental supply coupled with increasing demand from the Great Migration (1916-70) drove rental prices up.<sup>6</sup> Many were forced into double or even triple occupancy in order to afford the rent.

Block busting, or the scaring of white homeowners into selling their homes cheaply under the fear of racially integrated neighborhoods and declining property values, began in the 1910s and increased in prevalence during the 1950s. Homes sold below market by white homeowners were resold to Black homebuyers at above-market prices; in Baltimore, for example, the markup ranged from 80% to 100% higher.<sup>9</sup> Once the entire neighborhood had converted to predominantly Black ownership, the housing prices would then normalize – in other words, prices declined to market value.

Potential Black homebuyers, cut off from traditional avenues to homeownership, would also resort to contract buying, where they would put down a large down payment and then have monthly payments at oftentimes high interest rates, with the promise of eventually owning the home. Often, loopholes in the contract resulted in the Black homebuyer losing the home before the end of the contract with no means of recouping their equity. Estimates suggest that in Chicago alone, 75% to 95% of homes purchased by Black families were done through contract buying in the 1950s and 1960s and led to Black families losing \$3 billion to \$4 billion (in 2019 dollars) in wealth.<sup>10</sup>

Other Black families lost their homes and communities under the guise of urban renewal, sanctioned by Congress in 1948 to remove slums and “blight” and improve infrastructure.<sup>11</sup> In most cases, Black working-class and integrated neighborhoods, even if thriving, were leveled to make room for new downtown office developments and civic spaces – and even denuded land plots when private development was never realized. Federally

funded highways were also constructed through Black neighborhoods, stripping Black homeowners of their properties.<sup>12</sup>

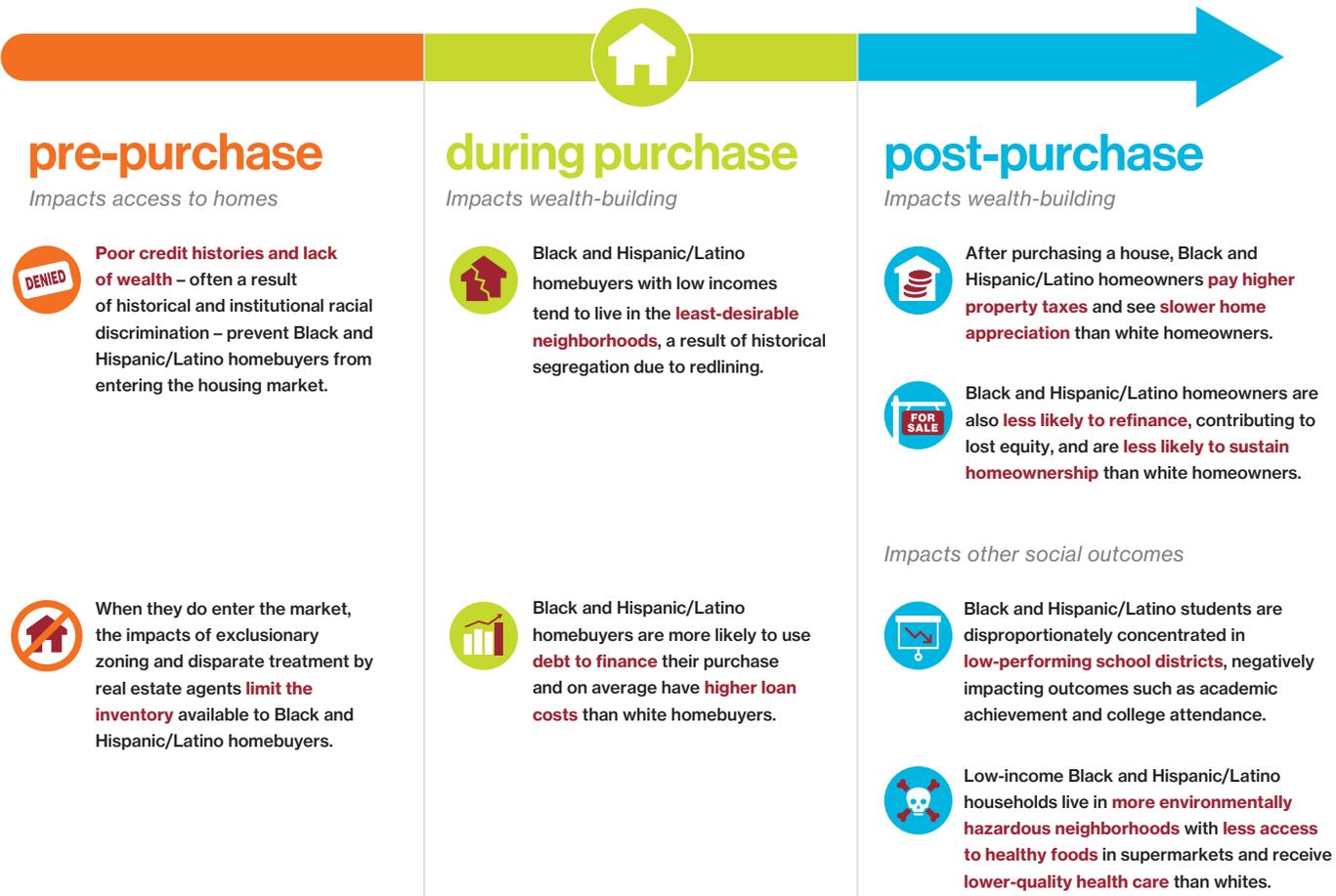
**GHETTOIZATION OF BLACK COMMUNITIES**

These racial policies and practices led to the ghettoization of Black communities. Limited housing opportunities led to overcrowded conditions within neighborhoods bursting at the seams and unable to meet the demand for housing from influxes of Black migrants. Difficulties in accessing credit resulted in declining homeownership and disinvestment by homeowners and landlords who could not access the resources for the upkeep. The proximity

of polluting land uses and increasing disinvestment drove down property values and increased the perceived credit risk of the community, further constraining and trapping residents within these communities.<sup>4,6</sup>

The legacy of unequal housing opportunities continues to create barriers that constrain the potential for racial and ethnic minorities to achieve the typical outcomes tied to homeownership. This evidence brief discusses the additional barriers faced by Black and Hispanic/Latino homebuyers, beyond those of households with low income, in accessing homeownership and achieving its positive outcomes.

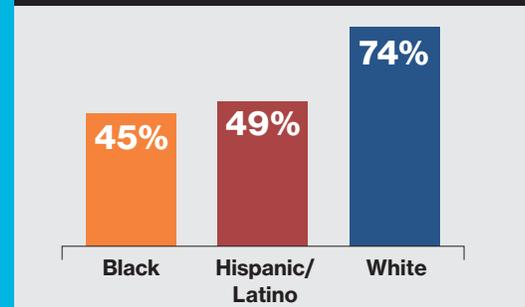
**FIGURE 2: BARRIERS FACED BY BLACK AND HISPANIC/LATINO HOMEBUYERS**



# The racial homeownership gap

The homeownership rates for Black and Hispanic/Latino households continue to trail that of white households. As of the first quarter of 2021, the homeownership rate of white households exceeded those of Black and Hispanic/Latino households by 25-30 percentage points, similar to the pre-pandemic gap.<sup>13</sup> This gap has persisted despite homeownership gains by Black and Hispanic/Latino households before the Great Recession. In fact, the homeownership rates for Black households have yet to recover to their pre-recession levels, unlike those of white and Hispanic/Latino households, and the gap is wider than it was before the passage of the 1968 Fair Housing Act.<sup>14</sup>

FIGURE 3: U.S. HOMEOWNERSHIP RATES



## Key barriers to accessing affordable homeownership for Black and Hispanic/Latino homebuyers

**Higher income and wealth are associated with higher homeownership rates, but Black households' income and wealth distributions are notably lower than those of white households.**

- Racial differences in the income distribution exist where almost 33% of Black households earn below \$25,000, as compared with 16% of white households. Furthermore, only 7.2% of Black households make at least \$150,000, compared with 17.7% of white households.<sup>15</sup> If Black and white households had similar income distributions, the Black homeownership rate would increase by 9 percentage points.<sup>16</sup>
- White households with low incomes (50.8%) have a higher homeownership rate than Black households with low incomes (24.1%), which contributes to wealth disparities. According to the 2016 Survey of Consumer Finances, Black households with low incomes – those with incomes in the 20th percentile group – had a median wealth of \$3,040, as compared with a median wealth of \$11,860 for white households with a similar income.<sup>16</sup>
- Disparities in parental wealth and homeownership help to explain 12-13% of the Black-white homeownership gap among young adults, pointing to the importance of intergenerational transfers of wealth.<sup>17</sup>
- Income reduction and loss have a greater effect on Black and Hispanic/Latino households than on white households. A 1% reduction in income lowers the homeownership probability by 18% and 19% for

Black and Hispanic/Latino households, respectively, compared with a 6% decline for white households.<sup>18</sup>

**Greater access to credit promotes higher homeownership rates, but Black households are less likely to have sufficient credit to qualify for mainstream, private lending products.**

- Over 50% of white households have a FICO credit score higher than 700; only 20.6% of Black households have a similar credit score. This is compounded by fewer Black households (69%) having credit histories, sufficient credit and a credit score than white households (82.1%). If the same credit score distribution is applied to white and Black households, Black homeownership rates would rise by 10.6 percentage points.<sup>16</sup>

**Systematic inequities hamper homeownership rates for households of color because of discriminatory housing policies and institutional barriers.**

- As much as 17% of the homeownership gap cannot be explained by sociodemographic factors (e.g., income, age, family size, marital status, gender), and researchers hypothesize that the remaining gap may be explained by information networks, limited access to credit, discriminatory housing policies (e.g., redlining, racially restrictive covenants and zoning policies), and other institutional barriers.<sup>6,16,18</sup>

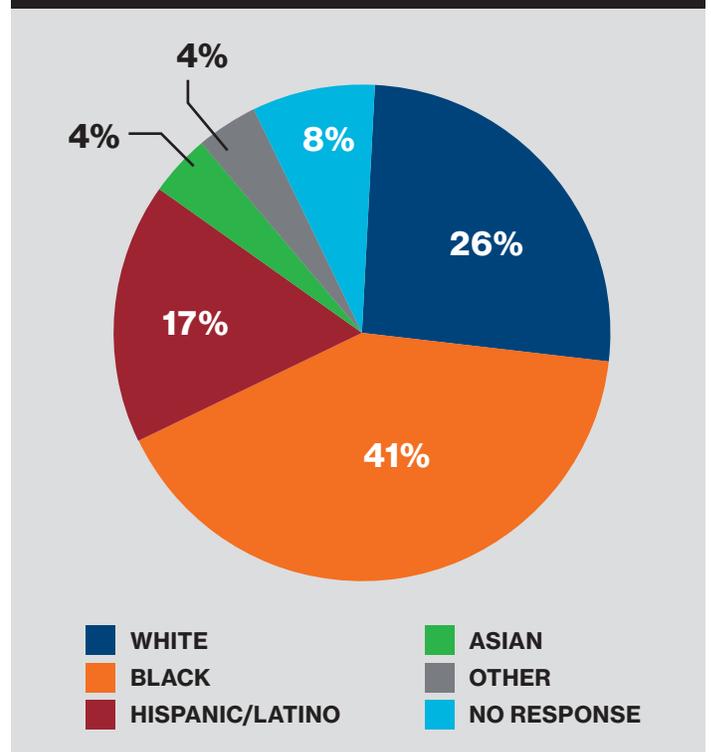


- Black and Hispanic/Latino prospective homebuyers still face disparate treatment by real estate agents, such as more stringent financial requirements for showings, steering to minority neighborhoods, and fewer showings.<sup>19</sup>
- Between 1976 and 2016, despite the passage of laws aimed at reducing discrimination in private lending, the racial gaps in loan denial remained persistent. Black and Hispanic/Latino borrowers had a higher probability of being denied a loan and of receiving a high-cost mortgage compared with their white counterparts.<sup>20</sup>

**How Habitat responds**

- Habitat for Humanity of Gaston County serves a diverse base of homeowners, providing more equitable access to housing (Figure 4). Habitat for Humanity of Gaston County provides homeownership opportunities that are accessible to homebuyers with low incomes who otherwise may not be able to access homeownership. We offer mortgages that are designed to work even for homeowners who lack pristine credit, thereby helping those homebuyers who are not able to secure traditional loan products. Habitat for Humanity of Gaston County supports and follows Fair Housing and Equal Housing Opportunity standards.
- Habitat for Humanity of Gaston County advocates for anti-racist housing and land-use policies at the local, state and federal levels that seek to increase racial equity in homeownership.

**FIGURE 4: DEMOGRAPHICS OF HABITAT FOR HUMANITY HOMEOWNERS IN THE U.S., FY2020**



# The racial wealth gap

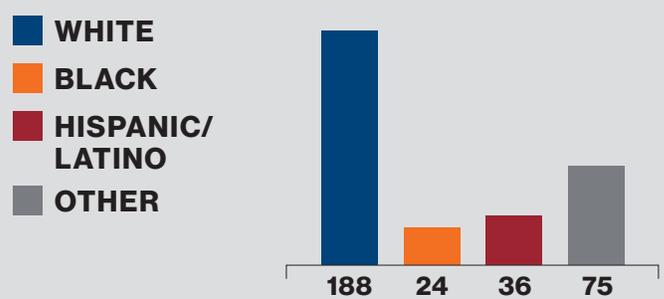
The typical white family has five to eight times the wealth of a typical Black and Hispanic/Latino family (Figure 5). Black homeowners lag white homeowners' overall accumulated wealth and amount of equity amassed in their homes, which is the primary contributor to their net wealth (Figure 6).<sup>21,22</sup> But how do the financial returns of Black and Hispanic/Latino homebuyers compare with those of white homebuyers? After accounting for the annual costs and benefits of homeownership, Black and Hispanic/Latino homebuyers – regardless of income level – achieved returns that outpace those of white homebuyers.<sup>23</sup> This result centers on Black and Hispanic/Latino homebuyers having higher ratios of imputed rent (the rental value that homeowners would get from renting their home at market rates) to home values. However, Black and Hispanic/Latino homebuyers face key barriers that may affect their ability to build equity.

## Key barriers to building home equity for Black and Hispanic/Latino homebuyers

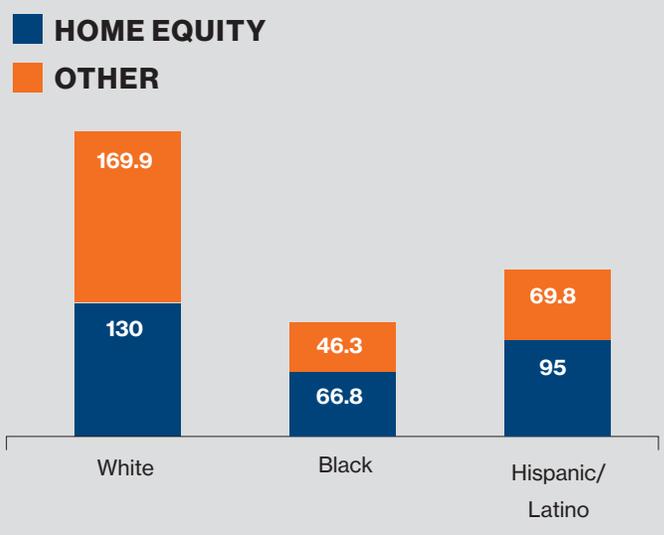
**Black and Hispanic/Latino homebuyers tend to use debt to finance homeownership and face more expensive mortgage financing, paying higher mortgage rates.**

- Black and Hispanic/Latino homeowners are more likely to finance homeownership through debt. The median loan-to-value ratios for Black and Hispanic/Latino homeowners were 66% and 61%, respectively, compared with 56% for white homeowners.<sup>24</sup>
- On average, Black homebuyers pay 29 basis points more than comparable white homebuyers.<sup>25</sup> Financial technology lenders reduce this disparity somewhat, but borrowers of color are still charged interest rates that are typically 8 basis points higher than they charge white borrowers with similar financial characteristics.<sup>26</sup>
- During the housing boom of the 2000s, subprime loans were disproportionately concentrated in communities of color, and Black and Hispanic/Latino borrowers were more likely to receive subprime loans and adverse pricing.<sup>27,28</sup> Subprime lending strips equity, with the excessive fees paid to lenders, contributing to an excessive rate of foreclosures. One in 5 subprime loans end in foreclosure.<sup>29</sup>
- Black homeowners are 16.5% less likely to refinance than white homeowners, and when they do refinance, Black homeowners pay interest rates that are about 1 percentage point higher. This translates to over \$22 billion in lost equity to Black homeowners over a 30-year period.<sup>30,31</sup>

**FIGURE 5: MEDIAN NET WEALTH (IN THOUSANDS OF DOLLARS)**



**FIGURE 6: HOMEOWNERS' MEDIAN HOME EQUITY AND NET WORTH (IN THOUSANDS OF DOLLARS)**

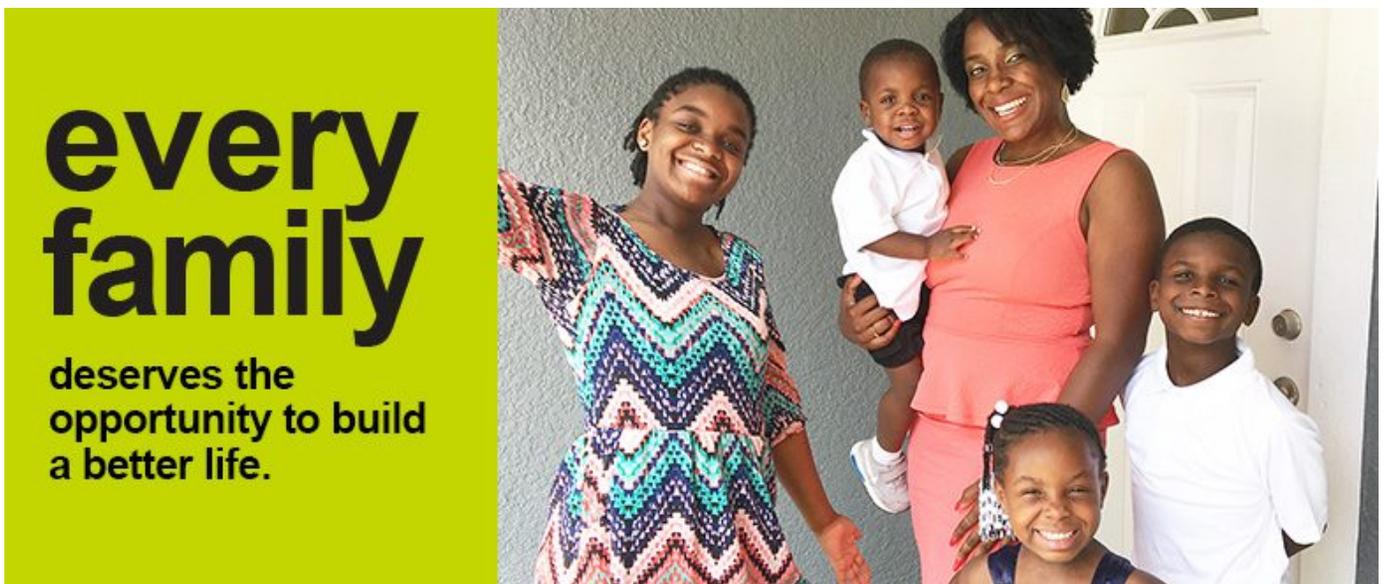


### Homes purchased by Black homebuyers tend to be lower-valued and appreciate more slowly.

- Even after conveying their preferences, homebuyers of color, especially Black homebuyers, are more likely to be steered to disadvantaged neighborhoods by their real estate agents despite having characteristics similar to white buyers.<sup>32</sup> This contributes to households of color tending to purchase homes in residentially segregated neighborhoods that are likely to experience limited or even negative home appreciation.<sup>23</sup>
- Homes located in formerly redlined areas have appreciated at half the rate of homes in greenlined areas, or neighborhoods with the lowest risk rating. Black homeowners are five times more likely to own in these formerly redlined areas than in greenlined areas.<sup>33</sup>
- In neighborhoods where Black households represent the majority of the population, homes are valued at about half the price of homes in neighborhoods where there are no Black households. Furthermore, similar quality homes located in neighborhoods with similar amenities are worth 23% less in majority Black neighborhoods, compared with those with very few or no Black residents.<sup>34</sup>

### Black and Hispanic/Latino households are less likely to sustain homeownership.

- Households of color with low incomes are slower to transition to ownership, more likely to return to renting, and less likely to return to homeownership if they have transitioned to renting than white households at similar income levels.<sup>36,37</sup> Less than half of homeowners of color with low income remained homeowners within four years of becoming a homeowner, compared with 60% of white homeowners with low income.<sup>36</sup>
- For those able to sustain homeownership through economic decline, Black and Hispanic/Latino households are more likely to end up with negative equity than comparable white homeowners. This is largely driven by the housing market in which they purchased their homes.<sup>38</sup>



## How Habitat responds

- Habitat for Humanity of Gaston County serves a diverse range of homeowners, providing more equitable access to low-cost financing that can help support building home equity. Mortgages for all Habitat homeowners, regardless of race, are priced to be affordable, with monthly payments kept at 30% or less of income, and Habitat for Humanity of Gaston County can create unique financing options that meet the needs of all of their homebuyers.
- The counseling and classes offered by Habitat for Humanity of Gaston County can help ease the transition to homeownership for households of color with low income and better position them to sustain homeownership.
- Habitat for Humanity of Gaston County advocates for policies that increase and broaden access to safe and sound credit for underserved populations and help close the



homeownership gap for Black households and other communities of color.

- Habitat for Humanity of Gaston County also advocates for anti-racist housing, lending and land-use policies at the local, state and federal levels that seek to increase racial equity in homeownership.

# The racial health gap

Racial and ethnic health disparities cost the health care system and society about \$230 billion in direct medical expenditures and more than \$1 billion in lost productivity through illness and premature death.<sup>39</sup> Housing and neighborhood quality play significant roles in disparate health outcomes, as the prevalence of housing- and neighborhood-related health conditions, such as asthma, respiratory infections, lead poisoning, diabetes and obesity, remain higher among Black and Hispanic/Latino populations than white populations. In fact, Black children are 1.5 times more likely to have asthma, and Puerto Rican children are nearly twice as likely.<sup>40</sup> Repeated hospitalizations for asthma among children are strongly correlated with crowded housing conditions, high-minority neighborhoods and high-poverty communities.<sup>41</sup> Homeownership confers some health advantages, but because Black homeowners in particular are more likely to own in the same neighborhoods in which they rent, this health advantage is significantly diminished for this population.<sup>42</sup>

## Key place-based barriers to improving racial disparities in health

**Black and Hispanic/Latino populations with low incomes tend to live in the least desirable neighborhoods, which are plagued by environmental pollutants, lack access to healthy foods and quality health care, and have fewer recreational facilities.**

- Black households with low incomes live in more environmentally hazardous neighborhoods that have up to 3.3 times the average toxic concentration levels

of the average all-white neighborhood. Furthermore, Black households earning between \$50,000 and \$60,000 live in neighborhoods that are, on average, more polluted than the average neighborhood where white households with incomes below \$10,000 live.<sup>43</sup>

- Access to supermarkets increases the consumption of fruit and vegetables, particularly for Black households, where fruit and vegetable consumption increases by 32% as compared with 11% among white households. However, Black neighborhoods have two to three

times fewer supermarkets than white neighborhoods of comparable socioeconomic status, but two to four times more fast food restaurants and convenience stores, which stock less healthy foods.<sup>44</sup>

- Black households residing in predominantly Black neighborhoods receive lower quality health care than white households, regardless of socioeconomic status. Hospitals in predominantly Black neighborhoods have less technological resources and fewer specialists, and those primarily serving Black patients have more negligent adverse events. Physicians in medical settings primarily serving Black patients also tend to be less competent.<sup>44</sup>
- Although parks are equitably distributed across poor and minority areas, parks located in predominantly Black and Hispanic/Latino neighborhoods are 3.3 times and 8.6 times less likely, respectively, to contain recreational facilities than white neighborhoods.<sup>45</sup>

**Black and Hispanic/Latino populations are more likely to live in substandard housing conditions that create unhealthy environments.**

- Substandard housing conditions, such as exposure to dampness, mold, toxic gases and lead hazards, increase the risk of adverse respiratory outcomes and lead poisoning. Black and Hispanic/Latino populations are more than twice as likely to live in substandard housing than white populations.<sup>46</sup>

**How Habitat responds**

- Central to Habitat for Humanity of Gaston County’s mission is our work of helping families obtain decent homes – homes that are affordable, safeguard a family’s health, are secure, are designed to be accessible, and are safe. This is the minimum threshold for our housing quality, and maintaining this standard (and often going above it) enables Habitat for Humanity of Gaston County to help families obtain housing that reduces negative health outcomes and supports a healthy home environment.
- Habitat for Humanity of Gaston County’s repair programs offer longtime homeowners the opportunity to affordably address acute housing maintenance problems and improve the quality of their homes. This work ranges from structural problems requiring significant repairs, such as roofing repairs to address mold or

bacteria growth, or HVAC system repairs that result in improved air quality and reduced respiratory syndromes.

- Habitat for Humanity of Gaston County advocates to expand public resources for programs that help lower-income households make needed home repairs and access healthy homes.



# The racial education gap

Black and Hispanic/Latino students are less likely to graduate from high school and post-secondary institutions than white students. Among those 25 and younger, Black and Hispanic/Latino youths were almost twice as likely to have not completed high school as white youths. Black and Hispanic/Latino youths also had lower post-secondary graduation degree attainment rates than white youths.<sup>47</sup> For the average American, place of residence determines which school students can attend, which means the neighborhood school is often where students enroll. The average Black student attends a school in the 37th percentile for test results, and the average Hispanic/Latino student attends a school in the 41st percentile, while the average white student attends a school in the 60th percentile.<sup>48</sup>

## Key place-based barriers to reducing disparities in educational outcomes

### Black and Hispanic/Latino students remain concentrated in segregated, high-poverty neighborhoods with low-performing schools.

- Black and Hispanic/Latino students are disproportionately concentrated in low-performing school districts. About 45% of Black and Hispanic/Latino students attend high-poverty schools, where the majority of students participate in free and reduced-cost lunch programs, compared with 8% of white students.<sup>49</sup> Furthermore, Black students comprise 15% of the public school population, and Hispanic/Latino students make up 28%, but 60% of Black and Hispanic/Latino students attend public schools that have at least 75% minority enrollment, and 25% of Black students and 32% of Hispanic/Latino students attend public schools composed predominantly of peers of the same racial/ethnic group.<sup>49</sup>
- High-poverty, segregated schools tend to have less-qualified teachers and lower average academic achievement. Attending a high-quality school with high test scores, peer effects and teacher quality can significantly reduce the racial test score gap and improve future economic outcomes.<sup>48,50</sup>
- Moving to a low-poverty neighborhood before the age of 13 increases the probability of college attendance by 2.5% and increases long-term incomes by 31%.<sup>51</sup>

### How Habitat responds

- Habitat for Humanity of Gaston County can provide homeowners with the chance to move out of high-poverty neighborhoods and into areas with better educational opportunities. The affordable nature of Habitat for Humanity of Gaston County homes allows homeowners to reside in areas they might otherwise not be able to afford to live in, granting them the ability to send their children to higher-quality schools.
- The stability provided by Habitat for Humanity of Gaston County homes allows homeowners to minimize disruptions to their children's education, which can help counteract the negative impact of lower-quality schools and limited community resources.
- Habitat for Humanity of Gaston County advocates for land use policies that increase affordable homeownership development opportunities in lower-poverty neighborhoods.

**everyone**  
needs a place to call home



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