HOMEOWNERSHIP HAS LONG BEEN REGARDED AS A foundational aspect of the American dream. Becoming a homeowner is seen as a major accomplishment, much like graduating college or finding a job. It is associated with better life outcomes and opportunities than renting—on average, homeowners have greater stability and higher rates of civic and community participation, while children of homeowners generally have higher educational attainment. In addition to its social and educational benefits, homeownership is a primary mechanism for building household wealth. In fact, for most households, their home is their most valuable asset. Homeowners generally have greater wealth than those who do not own homes—and the difference is stark. This means that homeowners are significantly more likely to attend college and invest in other wealth-building opportunities, such as stock portfolios.

But homeownership is not equally distributed across races. Blacks have much lower homeownership rates than whites. According to the U.S. Census Bureau, the national homeownership rate for whites (non-Hispanic or Latino) was 76% in 2017, nearly ten times the homeownership rate for blacks (8%). This means that a lower portion of blacks obtain homeownership—and are exposed to its substantial benefits—than whites. This translates into lower wealth, educational attainment, and stability among blacks—in essence, fewer opportunities for success.

How does mortgage lending perpetuate racial disparity in homeownership rates?

Households often cannot afford homeownership on their own; instead, they rely on help from a bank. Mortgage lending allows households to pay a small percentage of the purchase price of the home in the form of a down payment. The down payment varies depending on the type of loan, but households generally pay between two and twenty percent of the home price. Each month, the homeowner repays the bank a portion of
the remaining balance of the loan until the loan is paid off. The bank adds interest to each monthly payment, which, depending on the interest rate, can vastly increase the mortgage payment.

Historically, mortgage discrimination denied loans to blacks. In the mid-twentieth century, several laws were passed that prohibited mortgage discrimination, such as the Fair Housing Act of 1968 and the Home Mortgage Disclosure Act of 1975. However, mortgage lenders continue to practice disguised forms of mortgage discrimination by requiring blacks to obtain higher-priced loans than whites for the same home. Otherwise known as predatory lending, the terms of the mortgage, such as the interest rate, as well as fees and payment penalties, are often less favorable to blacks. On average, mortgage lenders charge higher closing costs, appraisal costs, broker or lender fees, and prepayment penalties to black homebuyers. These additional costs increase the monthly mortgage payment for the homebuyer, which reduces the ability of the homeowner to afford non-housing necessities, such as food and clothing, as well as additional expenses, such as education. Mortgage lenders are also more likely to market more dangerous loan products to blacks.
One such product is the adjustable rate mortgage, in which the interest rate varies on a predetermined basis. In an environment with rising interest rates, an adjustable rate mortgage will result in subsequently higher payments. Eventually, the payments may become unaffordable to the homeowner, prompting mortgage default and potentially foreclosure.

The Great Recession in the mid- to late-2000s demonstrated the devastating effects of mortgage discrimination on black homeowners. Predatory lending, which was rife throughout the late 1990s and early 2000s, was disproportionately practiced among low-income and minority households. While homeownership rates for other races have stabilized, blacks continue to struggle in their recovery from the recession. Furthermore, for potential black homebuyers, poorer credit as a result of the recession may prevent them from qualifying for homeownership.

Ultimately, blacks face greater difficulty in obtaining homeownership, largely the result of racial disparities practiced in mortgage lending. Facilitating access to black homeownership is crucial in order to ensure that future blacks are exposed to the higher social, educational, and financial opportunities associated with homeownership.

**SOURCE**