Closing the Black Homeownership Gap
NHC Closing the Black Homeownership Gap
Research Examples

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Homeownership Rate, 1994-2018

- African Americans are 30 percentage points less likely than white households to own a home, and the gap is widening over time.

Racial Gap In Mortgage Transition


» Uses uniquely constructed anonymized credit bureau data to analyze the racial gap in transition into mortgage ownership by 2018 for a sample of households who were renters in 2012.

» Investigates the more recent trends for consumers acquiring new mortgages, including the role of “credit” characteristics.

» Sheds light on racial patterns in transition for consumers acquiring new mortgages.
Racial Mortgage Ownership Patterns (2012-2018)

- African Americans and Hispanics are roughly one-half and two-third as likely to enter mortgage ownership as Non-Hispanic Whites respectively.
What Are The Big Drivers Of Transitioning Into New Mortgages?

- Compared to Whites, Blacks are typically
  - skewed younger, are more likely to be single, have lower household income growth
  - have lower FICO, missing FICO, are more likely to have delinquencies and are less likely to have inquired for mortgages

- More likely to transition
  - Non-Hispanic Whites
  - Ages 36-45 years old
  - Married
  - Higher income growth
  - Higher FICO scores
  - Have inquired for mortgages in past

- Less likely to transition
  - Higher affordability index (house price-to-income ratio)
  - Higher unemployment rate
  - Higher student loan DTI
  - Higher delinquencies
  - More recent bankruptcies
  - With thin files/missing FICO scores
To What Extent Racial Gap In Transition Rate Explained By Racial Differences In Characteristics?

» Credit Worthiness contribute substantially to the White-Black gap.

» While Household Composition and Income Growth matters in explaining the White-Black gap, Geography explains virtually none of the gap.

Source: Freddie Mac calculations using anonymized credit bureau data. Based on Blinder-Oaxaca decomposition of White-Black gap in transition rates into mortgage ownership.
Decomposing White-Black Gap In Transition Rate By State

Geography contributes substantially to White-Black gap in areas where affordability is challenged.

Source: Freddie Mac calculations using anonymized credit bureau data. Based on Blinder-Oaxaca decomposition of White-Black gap in transition rates into mortgage ownership.
Defining “Mortgage Ready”

- We define “Mortgage Ready” as non-mortgage owners of ages 45 and younger, who have credit characteristics to qualify for a mortgage.

Non-Mortgage Owner (Age ≤ 45)

- “Mortgage Ready”
  - FICO ≥ 620
  - DTI ≤ 25
  - No foreclosures in 84 months
  - No bankruptcies in 84 months
  - No severe delinquencies in 12 months

- “Mortgage Weak”
  - FICO < 620 and/or…
  - DTI > 25
  - Foreclosures in 84 months
  - Bankruptcies in 84 months
  - Severe delinquencies in 12 months

Note: Mortgage readiness – Based on research criteria not actual underwriting.
# How Many Are “Mortgage Ready”?

<table>
<thead>
<tr>
<th></th>
<th>Overall Population</th>
<th></th>
<th>African Americans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Freq (million)</td>
<td>Percent (%)</td>
<td>Freq (million)</td>
</tr>
<tr>
<td>&quot;Mortgage Weak&quot;</td>
<td>56.1</td>
<td>49</td>
<td>11.3</td>
</tr>
<tr>
<td>&quot;Mortgage Ready&quot;</td>
<td>37.0</td>
<td>32</td>
<td><strong>3.0</strong></td>
</tr>
<tr>
<td>Mortgage Owner</td>
<td>21.1</td>
<td>18</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: Freddie Mac calculations using anonymized credit bureau data with individuals aged 45 and younger for Sep 2018.

- 37 Million “Mortgage Ready” Overall Population
- 19 percent of African Americans are “Mortgage Ready” (approximately 3.0 Million)
Where Are The “Mortgage Ready” African Americans - Are Those Locations Affordable?

Most “Mortgage Ready” African Americans are concentrated in South and Northeast, and affordability is threatened in some of those areas.

Many “Mortgage Ready” African Americans earn enough to afford a typical house in their areas.

Source: Freddie Mac calculations at the CBSA-level using anonymized credit bureau data and Freddie Mac Home Value Explorer data for Sep 2018. Note: According to NAR’s methodology, if a consumer’s quarterly household income is greater than or equal to the annual mortgage payment on a median priced house (under the assumption of 3% down payment, 4% mortgage rate, 30 year contract), then that house is affordable for him.
Percent of Respondents using Different Sources of Down Payment

<table>
<thead>
<tr>
<th>Year</th>
<th>Savings, Inheritance Retirement Account, Other Assets</th>
<th>Proceeds from the sale of another property</th>
<th>Assistance or loan from a nonprofit or government agency</th>
<th>A second lien, home equity loan, or home equity line of credit</th>
<th>Gift or loan from family or friend</th>
<th>Seller contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>79%</td>
<td>23%</td>
<td>5%</td>
<td>0%</td>
<td>23%</td>
<td>15%</td>
</tr>
<tr>
<td>2014</td>
<td>75%</td>
<td>25%</td>
<td>7%</td>
<td>2%</td>
<td>22%</td>
<td>16%</td>
</tr>
<tr>
<td>2015</td>
<td>73%</td>
<td>28%</td>
<td>8%</td>
<td>4%</td>
<td>22%</td>
<td>17%</td>
</tr>
<tr>
<td>2016</td>
<td>70%</td>
<td>31%</td>
<td>10%</td>
<td>4%</td>
<td>23%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: Freddie Mac Economic and Housing Research report, May 2019. Note the percentages do not add up to 100 percent as the respondents chose more than one option in some instances.

- Savings or other assets including retirement funds and inheritance are dominant source of down payment
  - The share of homebuyers who use proceeds from sale of another property went up.
  - The share of homebuyers who use gift monies or seller contribution remained constant.
Different Sources of Down Payment By Race (2016)

- Compared to Whites, African Americans rely
  - less on proceeds from sale of another property as source of down payment.
  - more on savings, assistance from government or non-government agencies or seller contribution to meet their down payment requirements.

<table>
<thead>
<tr>
<th>Race</th>
<th>Savings, retirement account, inheritance, or other assets</th>
<th>Proceeds from sale of another property</th>
<th>Assistance or loan from a nonprofit or government agency</th>
<th>A second lien, home equity loan, or home equity line of credit</th>
<th>Gift or loan from family or friend</th>
<th>Seller contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>68%</td>
<td>32%</td>
<td>8%</td>
<td>3%</td>
<td>22%</td>
<td>14%</td>
</tr>
<tr>
<td>African American</td>
<td>74%</td>
<td>10%</td>
<td>30%</td>
<td>5%</td>
<td>22%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: National Survey of Mortgage Originations (NSMO) data and Freddie Mac calculations.
Time To Save For “Mortgage Ready” Population By Race/Ethnicity

- Minorities need longer time to save than Whites
  - White-African American gap is the lowest since African Americans typically do not live in more expensive areas compared to Whites.

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>&quot;Time to Save&quot; (year)</th>
<th>Monthly Net Income</th>
<th>Median House Price (SFH)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20% down</td>
<td>5% down</td>
<td>3% down</td>
</tr>
<tr>
<td>Non-hispanic Whites</td>
<td>14.4</td>
<td>3.6</td>
<td>2.2</td>
</tr>
<tr>
<td>African Americans</td>
<td>15.4</td>
<td>3.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Hispanics</td>
<td>24.5</td>
<td>6.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Asians</td>
<td>23.5</td>
<td>5.9</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Freddie Mac calculations using anonymized credit bureau data for Sep 2018. Time to Save is calculated by dividing down payment requirements by monthly savings. According to Bureau of Economic Analysis, average personal savings rate is 6.7% of net income in 2018. We estimate net income by subtracting both federal and state taxes from gross income at the individual-level.
Time to Save (3 Percent Down) for “Mortgage Ready”
African Americans

Typically, high cost areas need more time to save and can benefit from low down payment programs.

Source: Freddie Mac calculations using anonymized credit bureau data for Sep 2018. Time to Save is calculated by dividing down payment requirements by monthly savings. According to Bureau of Economic Analysis, average personal savings rate is 6.7% of net income in 2018. We estimate net income by subtracting both federal and state taxes from gross income at the individual-level.
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Q&A

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