Homeownership and economic opportunity for BIPOC Vermonters

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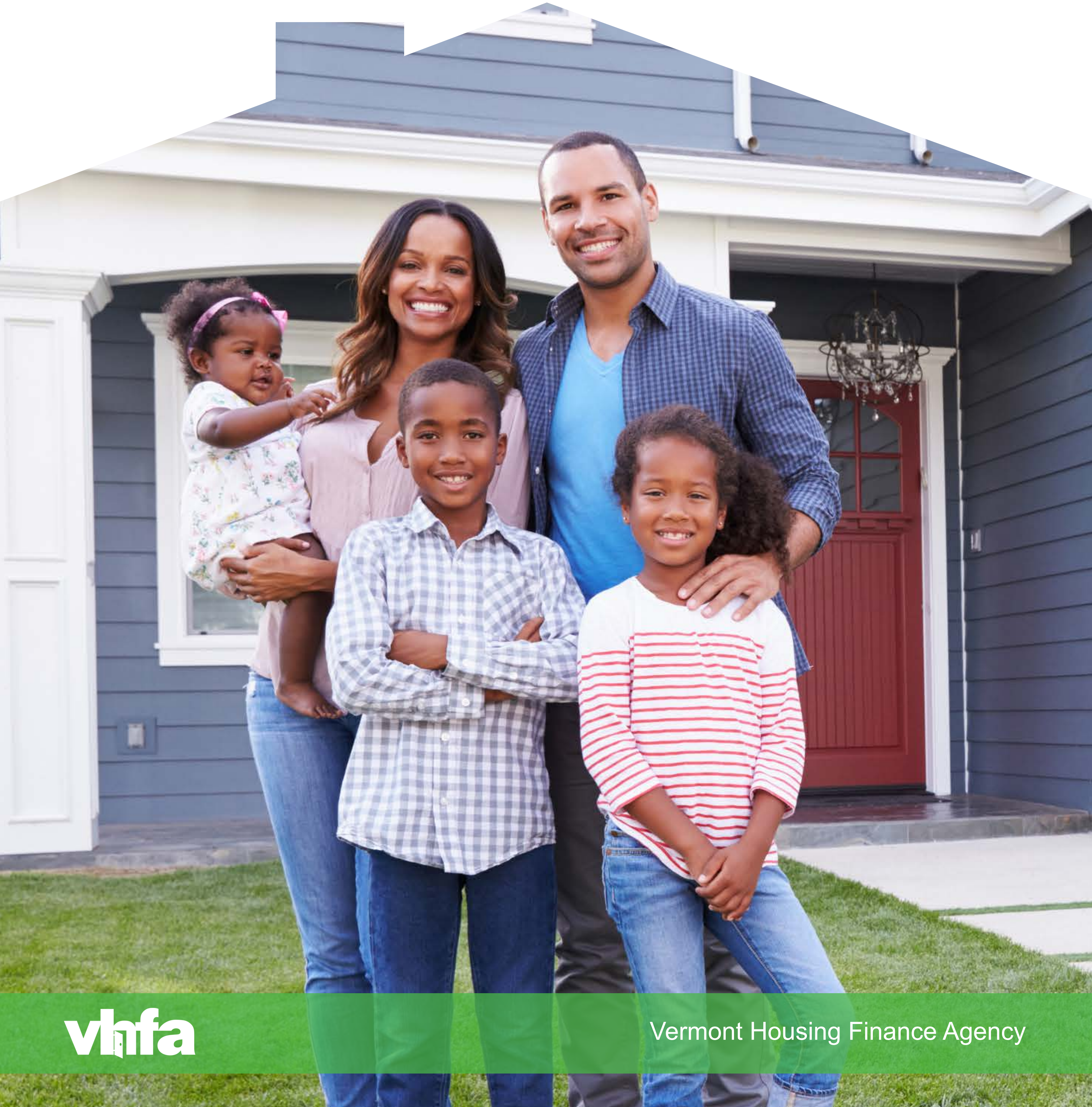
Christina Cramer
Vermont Housing Fellow



Vermont Housing Finance Agency

Introduction

Being able to afford a decent home is a prerequisite for opportunity. Achieving better health, better economic opportunity, or a better education for Vermonters can only occur if Vermont families have safe, decent, affordable homes in which to live. Low-wage workers comprise a substantial share of the workforce. Many individuals in the low-wage worker population are vulnerable to economic hardship. Many struggle paycheck to paycheck just to get by, let alone save for a down payment for a small house.

The BIPOC community in particular has been denied access to home ownership and the associated accumulation of wealth due to systemic racism. Systemic racism is defined as the complex array of anti-BIPOC practices, the unjustly gained political-economic power of whites, the continuing economic and other resource inequalities along racial lines, and the white racist attitudes created to maintain and rationalize white privilege and power. The lack of corrective actions to systemic racism perpetuate the housing-related wealth divide. Housing segregation locks in educational inequities and separate and unequal neighborhood conditions fuel abusive social practices. The racial wealth gap further impedes access to higher education and entrepreneurship.

Don Layton, a former CEO of Freddie Mac, commented, “Homeownership is regarded as causing an improvement in the quality of life of a typical family. It is the most common method for such a family to build wealth: by paying down mortgage principal each month and participating in the long-term appreciation of home values, a family can build wealth that can be used for retirement or other needs, including helping the next generation. Such wealth creation therefore provides a major social as well as economic benefit. Add in protection against being forced to relocate by a landlord due to unaffordable rent increases or other actions, and homeownership is validly seen as a source of family stability”.

Many Vermont BIPOC families have been denied the financial and social benefits afforded other families through homeownership. It is time to move forward and provide a more streamlined path to homeownership for people of color.

Historical perspective

The racial inequities in the United States are thoroughly documented as they apply to housing, education, social justice, health, and wealth. The legacy of racist housing practices has denied wealth building opportunities to people of color that were seldom denied to whites. The negative impact of racial disparities in wealth building is multigenerational, that is, a Black family denied the opportunity of home ownership after World War II affects three or more generations of the original family’s descendants. Redlining was a government sanctioned program of the Home Owners Loan Corporation (HOLC), established in the 1930s. Redlining essentially involved drawing boundaries around neighborhoods based on residents' race and depriving them of resources and opportunities, particularly residential home loans. This effectively racialized poverty in cities across the United States.

Another example of structural racism was the systematic denial of the post-World War II GI Bill benefits to Black veterans. The GI Bill provided generous home loans, business loans, and educational and job-training benefits to veterans which helped them enjoy upward financial mobility to the middle class; however, Veterans Administration counselors discouraged and denied these benefits to Black veterans. As an example, of the 3,229 GI Bill home, business, and farm loans made in Mississippi throughout 1947, only two were offered to Black veterans. Considering that there were about 700,000 Black soldiers in World War II, the systemic denial of financial benefits has a ripple effect to many Black descendants. Modern day homeownership disparities between white and Black households are shaped by this history of structural racism.

Institutional racism continues to have deleterious effect on housing related wealth accumulation for Black households, particularly in the actions of financial institutions, realtors, and real estate appraisers. Racial steering, the practice in which real estate brokers would guide prospective home buyers towards or away from certain neighborhoods based on their race, was prevalent. Lender bias also contributed to increasing white family wealth versus their Black counterparts. It has been demonstrated that in some communities, as the percentage of white residents increases, the amount of mortgage lending increases; however, a high percentage of Black residents correlates to few mortgage loans.

Black homeowners also maintain that their homes are consistently appraised less than those of their white neighbors, resulting in diminishing their ability to build equity and further perpetuating income inequality. Examining more than 12 million housing appraisals from 2015 to 2021, researchers from Freddie Mac found that 15.4% of majority Latino census tracts appraisals, and 12.5% of majority-Black census tracts appraisals came in below the contract price for housing assessments compared to 7.4% of appraisals in the white census tracts. A Gallup and Brookings Institution study also reported that the widespread devaluation of Black-owned property is likely to be valued for 23 percent less than a nearly identical home in a white majority neighborhood. The study concluded that "the devaluation of majority-Black neighborhoods is penalizing homeowners in Black neighborhoods by an average of $48,000 per home, amounting to $156 billion in cumulative losses."

Building wealth through housing appreciation is a doorway to opportunity creation. The racial inequities in housing foster racial inequities in other sectors such as education, criminal justice outcomes, food security, health, upward mobility, and other quality of life issues. When parents have to spend a large percentage of their income on housing, this curtails spending on educational initiatives such as learning materials, extracurricular activities, technology, and other educational enrichments. Housing affordability also impacts the very neighborhoods, and their associated school systems, which are typically segregated. There is a plethora of studies that link housing segregation with a negative student learning impact.

One of the most common and effective methods of creating multigenerational wealth is through home ownership. Consider the farmer that inherited land from his parents back in the 1950s, ran the farm for 30 years, and passed it to his offspring who divided the land for their families housing needs, built houses, and raised their children, only to repeat the process for another generation. Each family received a "wealth head start" to begin their path of multigenerational wealth.

Unfortunately, not everyone, especially BIPOC families, have the luxury of the "head start" from previous generations. According to the Urban Institute, the median parental wealth of white young adults ($215,000) far exceeds the median parental wealth for Black ($14,397) and Hispanic young adults ($34,980). These numbers suggest that Black and Hispanic households will find it increasingly difficult to purchase a home and obtain the benefits or even sustain homeownership.

Census Bureau data from 2019 showed nearly 72% of white American families are homeowners, compared to just 42% of Black families. Rates of Black homeownership have been steadily declining over the years. The average first home purchased by a Black buyer is valued at $127,000, but they accrue $90,000 in mortgage debt, while white first-time homebuyers' homes are valued at $139,000 with a $75,000 mortgage debt. This places Black buyers in more debt for a less-valued asset, weakening their investment returns. Census Bureau data indicates that the white population of Vermont was approximately 577,000 or 92.5%, while the Black population was 8,130 or 1.3%. Vermont's homeownership rate among white households is 71%, while Black Vermont households have a rate of just 22%.

Mortgage bias continues to be a chronic national issue. A recent study found that nationally, mortgage lenders are 80% more likely to reject Black applicants; 70% more likely to deny Native American applicants; 50% more likely to turn down Asian/Pacific Islander applicants; and 40% more likely to reject Latino applicants. In 2019, mortgage applications were received by various Vermont lenders. White applicants accounted for 4,684 (80.21%) while only 41 (0.7%) were Black or African American, 35 (0.6%) were Asian. Of the 41 Black family mortgages, 31 were for less than $328,000. Lower cost homes typically are older and in need of significant repair or renovation. For low-income Vermont homeowners who are already spending more than 30% of their income for their monthly mortgage and recurring housing costs, paying for necessary home maintenance and repairs may be extremely difficult.

Most families cannot afford to purchase a home without obtaining a mortgage. Many low-income families are unable to meet the criteria established by financial institutions for home loans. Some may have to resort to unconventional financing at excessive interest rates. History has shown the negative impact of predatory lending for people of color. This impact helped fuel the mass foreclosure crisis of 2008 which widened the racial wealth gap. The Urban Institute has estimated that Hispanic families lost 44% of their wealth between 2007 and 2010, Black families lost 31%, and white families lost 11%. Before the 2008 recession, white families were roughly four times as wealthy as nonwhite families, but by 2010, whites were roughly six times as wealthy.

Vermont situational analysis

Unfortunately, Vermont has not provided an environment conducive to homeownership by low-income families of color. Home building has declined statewide. Before 2010, the number of homes in Vermont increased at an average annual pace of 1%. By 2025, that pace is expected to slow to less than 0.2%. The COVID pandemic and other economic conditions have exacerbated challenges in constructing new homes, due to lack and cost of building materials and skilled labor, as well as inflation. If new homes are not built, this results in a lack of "starter home" availability for lower income first time buyers. This lack of availability of homes in this price range disproportionately affects those of color which are traditionally lower wage earners. Low-income households have the least flexibility to adjust to higher housing prices or move to other locations and are therefore hard hit when housing markets are constrained.

Many in Vermont spend a significant portion of their income on housing. One in three of the state's renter and owner households are cost burdened by their housing costs. This means their monthly housing costs consume more than 30% of their income for rent, mortgage, insurance, taxes and utilities, the federal standard of affordability. Fifteen percent of households are severely cost burdened, which means they are paying 50% of their income or more for housing.

The lack of availability of low-cost housing, especially in or near Chittenden County, will result in low-income families predominately renting rather than purchasing their home. An additional 1,090 low-income households with incomes less than 80% of the area median are expected to live in Vermont from 2020 to 2025. 62% of these low-income households are projected to rent their homes, depriving them of the family wealth accumulation benefits of homeownership. Additionally, the lack of availability can make it significantly harder for recently arrived refugees as some are being placed in more rural parts of Vermont with no immediate city access making it harder to find employment, and social and cultural opportunities.

Establishing the infrastructure to address the low-income housing shortage is complex. It requires the coordination of many entities, such as state and local government, lending institutions, real estate professionals, building contractors and suppliers, philanthropic organizations, and the list goes on.

Recent calls to action

BIPOC households are again disadvantaged by the COVID pandemic related housing instability. A 2020 Pew Research poll found that 54% of all Americans expressed concern that they would lose their housing during the pandemic if housing assistance was not available. Lower income households and people of color were most affected. This concern was expressed by 72% of African Americans and 76% of Latinos, compared with just 43% of whites.

It is clear that race can statistically predict a person's propensity to experience home rental or ownership cost burdens and a resulting probability of living in low opportunity neighborhoods of concentrated poverty. In order to promote greater racial equity in housing, several issues need to be addressed. The remediation of the racial wealth opportunity gap in housing will require a concerted effort from the federal and state governments, municipalities, lending institutions, as well as housing professionals such as appraisers and realtors and philanthropic entities.

Public outcry against racial injustice and the effects of the COVID pandemic on housing have caused the federal government to begin to act. On January 26, 2021, the White House issued a "Memorandum on Redressing Our Nation's and the Federal Government's History of Discriminatory Housing Practices and Policies, which stated in part, "The Federal Government must recognize and acknowledge its role in systematically declining to invest in communities of color and preventing residents of those communities from accessing the same services and resources as their white counterparts. The effects of these policy decisions continue to be felt today, as racial inequality still permeates land-use patterns in most U.S. cities and virtually all aspects of housing markets."

In June 2021, President Biden directed Department of Housing and Urban Development (HUD) Secretary Marcia Fudge to lead "...a first-of-its-kind interagency initiative to address inequity in home appraisals. The effort will seek to utilize, quickly, the many levers at the federal government's disposal, including potential enforcement under fair housing laws, regulatory action, and development of standards and guidance in close partnership with industry and state and local governments, to root out discrimination in the appraisal and homebuying process."

Federal recognition of the problem, coupled with the formation of PAVE, the Interagency Task Force on Property Appraisal and Valuation Equity, is a positive first step. The goal of PAVE is to root out racial and ethnic bias in home valuations. In order to further that goal, PAVE is tasked with evaluating causes and consequences of appraisal bias while also establishing a set of recommendations to decrease racial bias in valuations. Congress will need to fund all initiatives proposed by PAVE in order to move the restorative process forward.

Local initiatives to promote BIPOC homeownership

Local organizations, including church groups, philanthropic organizations, and individual donors can make a difference in helping to provide affordable housing to low-income families. As Southern California's housing crisis continues to be a major concern, a number of churches, particularly Black congregations, are stepping up to build affordable housing on their church land. In 2017, the Rev. John Cager, pastor of Ward African Methodist Episcopal Church in South Los Angeles helped create the Faith Community Coalition, a network of pastors that seeks to find better opportunities for faith leaders who may feel the need to sell when they're in a position of declining revenue. The coalition aims for churches to work with developers who are willing to enter into full partnerships with parishes, evenly splitting the revenues and paving the way for the houses of worship to eventually own the properties. According to Deborah La Franchi, president and chief executive of impact-fund manager SDS Capital Group, "This is a way for the churches to achieve their mission, help to revitalize their community (and) help transform the lives of these individuals that will be housed in their property, at the same time the church is benefiting of the cash flow of the project, which is very helpful to many of them." Many of these church lands are located in neighborhoods that are near schools, parks, shopping, and public transportation, making an ideal environment for young families.

A similar initiative has taken place in Seattle, Washington. According to Donald King, a retired architect, civil rights activist and board member of the Nehemiah Initiative, Black churches in the Central Area of Seattle own approximately $70 million in real estate. The Nehemiah Initiative along with other organizations such as the Church Council of Greater Seattle, Bellwether Housing and the city of Seattle seeks to help members of the community faced with the effects of rising costs and gentrification to combat displacement in Seattle's rapidly growing Central District. In 2019, Washington Governor Jay Inslee signed into law H.B. 1377, which facilitated affordable housing development of single-family or multifamily residences located on real property owned or controlled by a religious organization. Washington State is also considering legislation that creates additional apartment housing near transit and in areas traditionally dedicated to single-family detached housing.

One successful example of a coordinated local approach to rehoming low-income families is The Center in Utica, New York. The Center was initially established to stem the population decline in Oneida County and diversify the surrounding area. Its primary focus is on resettling refugees, beginning in 1979 with Vietnamese families, and later assisting many others, such as 4,500 Bosnians. To date, The Center has rehomed over 16,500 individuals and has positively changed the face of the Mohawk Valley region. Many of these original families have children and grandchildren contributing to the economic and social success of Utica. Even though the mission of The Center focuses on the refugee community, similar initiatives could benefit from the Utica model to establish coordinated assistance programs.

Philanthropic not-for-profit organizations are also addressing the need for affordable housing. There are several chapters of Habitat for Humanity (HFH) in Vermont. HFH is a non-profit organization that partners with financial donors, community volunteers, and low-income families to build and sell affordable homes. Habitat homebuyers help build their own homes alongside staff and volunteers and pay an affordable mortgage. Through their efforts, over one hundred families have built stability, equity, and self-reliance through affordable homeownership.

Champlain Housing Trust is a Community Land Trust that supports the people of Northwest Vermont and strengthens their communities through the development and stewardship of permanently affordable homes. They offer a shared equity program that enables low to moderate income earners the ability to buy a home without a down payment and with a reduced mortgage. State and federal funds provide the down payment of 20 to 30 percent of the home's market value which helps reduce the mortgage payment for the buyer. The buyer is responsible for all closing costs, they retain their equity, and upon sale, receive 25% of the appreciation.

Champlain Housing Trust also offers zero percent interest loans up to $27,500 through their Manufactured Housing Down Payment Loan program, funded through the Vermont State Affordable Housing Tax Credit program. In 2020 Champlain Housing Trust's Mobile Home Down Payment Assistance program for energy efficient manufactured homes served 34 households.

Appropriations, availability, affordability, and action

A community with a desire for growth and diversity must have a multi-year plan in place to provide affordable housing to attract new residents and support existing low-income households. In order to facilitate communities that desire to increase their homeownership rate and/or promote diversity initiatives, they should be able to rely on federal and state guidance to understand the complexity of their undertaking. It would be beneficial to have publications, or "play books", of best practices collected from other successful ventures. Several play books would be necessary, as rural, suburban, and urban communities all present unique challenges.

The road to success begins with awareness and appropriations at the highest levels of government. Obviously, there is a demonstrated need for low-income housing, and the ability to fund this remedial initiative rests on Congress. They in turn can fund HUD to administer the program, either solely or through the states, be a clearinghouse for best practices, and manage funded grants and incentives.

Increasing federal funding for the Department of Housing and Urban Development's HOME Investment Partnerships (HOME) program, for example, would facilitate reducing the housing opportunity gap. It is the largest federal block grant to states and local governments designed exclusively to create affordable housing for low-income families, providing approximately $2 billion each year. HOME funds may be used to provide home purchase or rehabilitation financing assistance to eligible homeowners and new homebuyers as community needs dictate.

Affordability is the primary consideration of the potential homeowner. Donald Layton, in a 2022 housing industry perspective, advocates for retargeting homeownership subsidies such as the tax deductibility of home mortgage interest and down payment assistance for first time home buyers diversity candidates. Down payment assistance and expanding culturally specific financial education, can boost homeownership for people of color. Federal programs can be supplemented by local real estate tax reductions, if the town chooses to initiate such programs. Lending institutions may also assist with discount mortgage interest rates.

Federal funding and financing efforts also may need to expand access to different types of affordable homes. One obstacle centers around provisions of the Dodd–Frank Wall Street Reform and Consumer Protection Act that was enacted in 2010. The law was intended to overhaul financial regulation in the aftermath of the Great Recession, and it made changes affecting all federal financial regulatory agencies and almost every part of the nation's financial services industry. Unfortunately, provisions in the Act classified mortgages on manufactured homes as "high cost" loans. The regulations imposed by the Consumer Financial Protection Bureau (CFPB) inhibit the opportunity for millions of lower income Americans to realize the unique dream of quality affordable homeownership. The 2017 Preserving Access to Manufactured Housing Act (S.1751 and H.R. 1699), was an attempt to ensure manufactured housing remains available and affordable. The consensus of consumers and experts across the nation agree that today's manufactured homes can be as attractive and energy efficient as their conventionally built counterparts, at about half the purchase price of conventional construction. They are an affordable "starter home" for low-income families and are a low-cost housing option, especially in rural areas. In the US, 49% of manufactured housing is affordable for households at or below 50% of the area median, compared to just 26% of all housing. The median manufactured homeowner household spends only 16% of their income on housing, and less than 25% of manufactured homeowner households are cost-burdened, compared to over 27% of all US homeowners and almost 50% of all renters.

States and municipalities need to examine their current land-use policies to ensure they don't undermine affordable housing initiatives. Limits on density are another example of how regulations can unnecessarily restrict housing development. There are situations in which low maximum density requirements may be beneficial for safety or environmental factors. However, limiting density to one unit per acre is essentially the same as instituting a one-acre minimum lot size for a single-family home. The many towns that only allow 3 or fewer homes per acre have made it very challenging to build any multifamily structures. Because lower-income households spend on average a larger percentage of their income on housing than higher-income households, the costs of these regulations disproportionately burden low-income households. Reducing unnecessary land-use restrictions would benefit not only low- and middle-income households, but also overall economic growth. Renters with plans to move up to homeownership are delayed. Current zoning regulations may shut out certain demographics, a large one being those of low or middle income. More than 60% of homes in the United States are single-family detached houses, with many of those neighborhoods created and kept that way largely through decades-old zoning restrictions. They tend to be more expensive and skew more White than the broader metro area they are located in, reinforcing racial segregation.

Local governments should be responsible for generating a needs analysis for grant submission and project implementation. Local governments need to work with urban planning professionals to examine the low-income housing needs for their area. Zoning restrictions may need to be addressed to allow for higher density buildings, such as modular manufactured homes, townhomes and condominiums, to increase availability for potential homeowners that are younger, lower income and more likely to identify as people of color. Real estate professionals, builders, investors, and financial institutions need to be an integral part of the process. The local government must drive their own initiatives from inception to completion. As housing availability increases, residents need to be made aware of new opportunities for homeownership.

Conclusion

Earlier in this paper we referenced the low-income housing initiatives in South Los Angeles and Seattle, Washington. These provide successful models for promoting home ownership. Unfortunately, not enough emphasis has been placed on addressing the low-income housing crisis and its effect on families and generational wealth nationally. Although The U.S. Department of Housing and Urban Development is the governmental agency charged with coordinating “all things housing”; there is a current need for community planning and execution capabilities at local levels. Funding for these “boots on the ground” organizations could flow from Washington and state budgets to communities to provide a coordinated effort to increase low-income housing availability and facilitate potential new homeowners in obtaining low-cost financing and all applicable incentives. The local organizations can work with city planning professionals to determine the availability of properties ripe for rehabilitation as well as green field areas, work with local investors and developers, and financial organizations and other housing related disciplines.

These programs and initiatives are not “quick fix” solutions; however, action is necessary immediately. People of color are less likely to achieve ownership and tend to own lower valued homes. The housing crisis is trending worse instead of better, so we must plan for the future today. The sooner that a family can enjoy the benefits of homeownership, the sooner Vermont can achieve economic and racial equality.