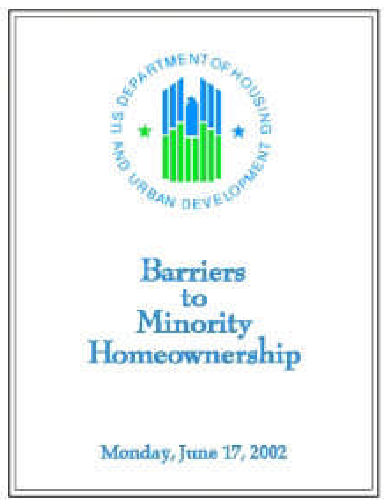
Homes & Communities
U.S. Department of Housing and Urban Development

Barriers to Minority Homeownership

The Department of Housing and Urban Development (HUD) has reviewed updated statistics issued by the U.S. Census Bureau on the homeownership rates of minority households. Despite increases in the number of minority families that became homeowners, the census figures show that large differences in rates of homeownership between minority and white households remain and have narrowed only slightly.

According to an analysis of these numbers by HUD, the minority homeownership rate was 26.8 percentage points below the rate for white households in 1994. The black homeownership rate was 27.5 percentage points below the white rate, and the Hispanic rate was 28.8 percentage points below the rate of whites in 1994. By 2001, the gap had been reduced by only 1.5 percentage points for all minorities, 1.6 percentage points for African-Americans, and 1.8 percentage points for Hispanic households.[1]

Barriers to Homeownership



Increases in minority homeownership have occurred recently in an extremely positive low-interest-rate, low-unemployment economic environment. Moreover, during the 1990s the conventional mortgage industry began offering a wider range of affordable lending programs. **This is good, but not enough to close the homeownership gap. This initial increase of innovation in the conventional market has already reached many of those that were poised to become homeowners.** And because future economic conditions are unpredictable, a reduction of the gap in homeownership levels of non-Hispanic whites and minority families is not a foregone conclusion and cannot be assumed. If the persistent gaps in minority homeownership are to be substantially narrowed, the structural barriers faced by minority families, or those that have a pronounced effect on minority communities, must be eliminated.

There are multiple barriers that prevent minority families from becoming homeowners. Those barriers include:

- lack of capital for the down payment and closing costs;
- lack of access to credit and poor credit history;
- lack of understanding and information about the homebuying process, especially for families for whom English is a second language;
- regulatory burdens imposed on the production of housing;
- continued housing discrimination.

1. Lack of Capital for Down Payment and Closing Costs:

- Down payment and closing costs are often the single greatest barrier to

homeownership.
- Minority families lack the accumulated wealth for down payment and closing costs. Homeownership is a vehicle to building wealth and assets, which in turn become instruments for homeownership opportunities for the next generation of family members.

2. Lack of Access to Credit and Poor Credit History

- Access to lenders becomes difficult when mainstream financial institutions are not located near potential low-income homebuyers.
- Many potential low-income homebuyers have not established credit or maintained a good credit history.
- Families with poor credit histories are either rejected for mortgage credit or given loans with high interest rates.

3. Lack of Understanding and Information about the Homebuying Process

- Homebuyers who do not understand the homebuying process, or for whom English is a second language, are less likely to be successful in their search for a home of their own.
- These families are particularly subject to predatory lending practices by those who charge exorbitant fees and make loans with a high likelihood of foreclosure.
- Predatory lending can include loan flipping, home improvement scams, asset-based and unaffordable mortgage loans, repeated refinancing with no borrower benefit, and packing single premium credit life insurance and other products into the loan amount.
- Lack of clarity at closing time is a significant barrier to homeownership. At closing, many families discover unexpected fees that can add hundreds or even thousands of dollars to the cost of their loans. The purchaser is forced to make a difficult choice: either hand over the extra cash, or lose the house.
- The law mandating the information to be provided to consumers in connection with their home purchase, the Real Estate Settlement Procedures Act, dates back to 1974. Even after years of revision, the paperwork when purchasing a home can challenge legal professionals, and creates headaches for homebuyers.

4. Regulatory Burdens

- The high cost of housing often results from a web of government regulations. Federal, state, and local codes, processes and controls delay and drive up the cost of new construction and rehabilitation.
- Unnecessary and cumbersome development regulations contribute to high housing costs. Barriers involve zoning, land development and site planning, building codes and standards, infrastructure, administration and processing, and impact fees.
- In some states, developers report that excessive regulation adds 25 to 35 percent to the cost of a new house. Substantial delays to meet burdensome regulations are not uncommon.
- When barriers are intentional - through the "Not In My Back Yard" syndrome of exclusionary zoning, expensive building fees, and burdensome regulations - the situation is particularly harmful; communities with the most restrictive land use and zoning regulations often have affordable housing shortages.
- Affordability often hits minority home-seekers hardest, particularly in urban centers where the housing stock has deteriorated. The overall homeownership rate for these central cities is only 51.5 percent.

5. Continued Housing Discrimination

- Americans are too often denied access to a suitable living environment based on race, color, national origin, religion, gender, familial status, or disability.
- A variant on discrimination can be exclusionary zoning spawned by the "Not In My Back Yard" syndrome; this can lead communities to fear that affordable housing may result in lower land values; suburban areas sometimes erect impediments, such as requiring large lots, to discourage all but a few households who can afford them; if development controls and regulations fail to address equitably the needs of citizens, they result in an especially pernicious form of discrimination.
- Barriers to homeownership faced by African-Americans, Hispanics, Asian-Americans, and other minorities will differ depending on where they may live.

Overcoming Barriers to Homeownership: Administration Actions

Down payment costs - including closing costs - remain the most significant single barrier to homeownership, especially for low- to moderate-income households. The American Dream Downpayment Fund proposed in the FY2003 budget at $200 million will set 130,000 first-time homebuyers on the path to owning their own home.

The Administration has also proposed to provide thousands of low-income Americans the opportunity to move into their own homes with the help of HUD's Section 8 Housing Choice Voucher Program. The new plan, part of the Administration's FY2003 budget, allows local housing officials to provide families with up to one-year's worth of housing voucher payments to be used toward the down payment on a home. Prospective homebuyers would have the choice of using their vouchers for down payment assistance or mortgage expenses.

The Administration has two major initiatives designed to address the lack of understanding about the homebuying process that presents a significant barrier to many minority families. Housing counseling is an invaluable tool for prospective homebuyers. Research has demonstrated that counseling can be effective in reducing mortgage delinquency. The Administration has proposed for FY2003 the establishment of a separate housing counseling program with a 75 percent increase in funding to $35 million to complement the Department's array of new homeownership initiatives. In particular, the additional funding will enable counseling agencies across the country to hire and train bilingual counselors and also produce written materials in multiple languages to reach out to minority households. Housing counseling can also be a financial literacy and credit rehabilitation tool for families with poor credit histories.

The Administration has proposed a number of other initiatives to encourage homeownership, including a proposed tripling of the funds for the Self-Help Homeownership Opportunity Program (SHOP) to $65 million. SHOP benefits faith-based and other community organizations, like Habitat for Humanity, dedicated to turning low-income Americans into homeowners. This program expansion will help support the construction of 3,800 homes, fueled in part by the "sweat equity" of participating families.

In addition, the Administration has proposed a $2.4 billion Single-Family Affordable Tax Credit that will help develop and rehabilitate single-family homes. This investor-based tax credit will encourage developers and non-profit organizations to build new single-family affordable houses or rehabilitate existing ones, and will result in an additional 200,000 homes becoming available for purchase in low-income neighborhoods.

Private Sector Involvement and Commitment

Despite the Administration's actions, it is clear that continuation of the increases in minority homeownership that occurred during the economic environment of the

1990s is not assured for the future. Private sector actors involved in the real estate and mortgage lending industries will need to increase their levels of product innovation and marketing to minority families in order to sustain these growth rates.

[1]Homeownership rates used for white and African-American households exclude Hispanic households.

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