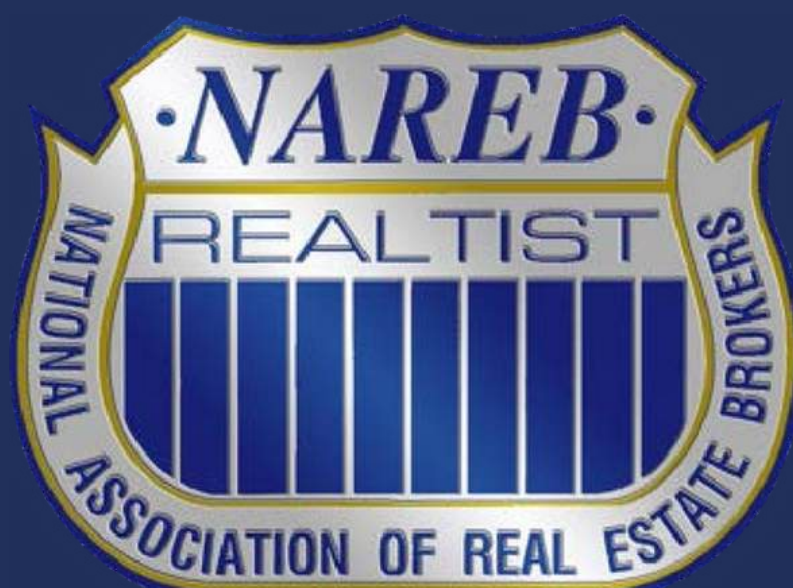


2024 State of Housing in Black America

National Leadership is Essential to Increase
Black Homeownership

James H. Carr

Michela Zonta



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**With Message from Courtney Johnson Rose, President,
National Association of Real Estate Brokers**



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Acknowledgment

ACKNOWLEDGEMENTS

The authors thank Courtney Johnson Rose, President of the National Association of Real Estate Brokers (NAREB) for the opportunity to prepare the 2024 State of Housing in Black America report. We also thank the NAREB Board of Directors and C Renee Wilson, NAREB Executive Director, for their support in the preparation of this report.

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ABOUT THE NATIONAL ASSOCIATION OF REAL ESTATE BROKERS NAREB

NAREB was founded in Tampa, Florida, in 1947 as an equal opportunity and civil rights advocacy organization for African American real estate professionals, consumers, and communities in the United States. Our purpose remains the same today, but we are more focused on economic opportunity than civil rights. Although composed principally of African Americans, the REALTIST® organization embraces all qualified real estate practitioners who are committed to achieving our vision, which is “Democracy in Housing.”

DISCLAIMERS

All statements in this report are the views of the authors and do not represent the views or opinions of any organizations with which they are associated. Neither the Board of the National Association of Real Estate Brokers nor its executives or staff is responsible for the content of this report. Any errors are the sole responsibility of the authors.

Contents

MESSAGE FROM THE PRESIDENT7

EXECUTIVE SUMMARY.....9

- ▶ Black Wages and Wealth
- ▶ Housing Affordability in 2023
- ▶ Inadequate Housing Supply
- ▶ Housing Market in 2024 and Beyond
- ▶ Climate Change and Black Homeownership
- ▶ NAREB Policy Priorities and Recommendations
- ▶ 2023 HMDA Highlights

HOMEOWNERSHIP AND WEALTH INEQUALITY.....20

REVIEW OF 2023 HMDA DATA.....24

- ▶ Loan Applications and Originations by Race and Ethnicity
- ▶ Loan Denial Rates by Race and Ethnicity
- ▶ Loan Failure Rates by Race and Ethnicity
- ▶ Loan and Lender Channels by Race and Ethnicity
- ▶ Loan Type, Geographic Patterns, and Race
- ▶ Cities with Largest Black Populations and High Levels of Segregation
- ▶ Mortgage Lending to Black Female Applicants
- ▶ Homeownership Among Black Millennials

MORTGAGE CREDIT AVAILABILITY.....	42
▶ Credit Scoring and Related Risk Assessment	
▶ Fannie Mae and Freddie Mac Pricing	
▶ Disparate Home Appraisal Practices	
CLIMATE CHANGE AND BLACK HOMEOWNERSHIP.....	52
▶ Historic Harm of Environmental Hazards in Black Communities	
▶ Future Climate Change Disproportionate Damage to Black Communities	
▶ Recent Efforts to Address Unequal Climate Change Damage to Black Communities	
THE ECONOMY AND HOUSING MARKET.....	57
▶ Economic Growth, Inflation, Wages and Employment	
▶ Institutional Investors in the Single-Family Housing Market	
NAREB POLICY PRIORITIES AND RECOMMENDATIONS.....	62
CONCLUSION.....	67
ENDNOTES.....	68
APPENDIX.....	76
▶ Detailed 2022 HMDA Tabulations	

Message from the President



Dr. Courtney Johnson Rose

President
National Association of
Real Estate Brokers, Inc.

The 2024 State of Housing in Black America (SHIBA) report presents a stark reality-homeownership is in a state of emergency for African Americans. James H. Carr and Michela Zonta have meticulously gathered the facts, statistics, and analysis, underscoring the persistent barriers that hinder Black homeownership. In 2023, the homeownership rate among Black households stood at a mere 45.7 percent, a sharp contrast to the 74.3 percent among White households and a significant drop from its peak of 49 percent in 2004.

Due to high interest rates implemented to battle inflation, home mortgage originations declined in both 2022 and 2023 across the country. But even as rates have eased recently, the home mortgage market continued to struggle in the first three quarters of 2024. The data is even more dire for Black families. Home purchases by the two strongest homebuying demographics for African Americans - Black female-headed households applying without a co-applicant and millennials - both declined in 2023. The fall in Black millennial applications and originations is exceptionally troubling because that is the borrower group whose success most significantly contributes to the potential for long-term wealth accumulation through homeownership. Their success also determines the aggregate potential for future Black homeownership increases.

The 2024 SHIBA report demonstrates that Black homeownership is hampered by a mortgage finance system that continues to discriminate. Black mortgage applicants are turned down more often than Whites; Blacks are more likely to receive high-cost home loans than their White counterparts, and houses in Black neighborhoods are less likely to be appraised at the same values compared to similar homes in white communities.

But most alarming may be that while Blacks have recently had a historically strong presence in the labor market, it is not prompting increases in homeownership.

This data necessitates a united, multi-sector response that involves public, private, and non-profit entities in implementing practices, policies, and regulations that can finally reverse the trend and boost Black homeownership. We need innovative ideas and leadership that can bring about change.

NAREB is playing its part. In its second year, our Building Black Wealth Tour is equipping thousands of Black families across the nation with the information and resources they need to build family economic security; we are expanding our NAREB Developers Academy, so more builders will concentrate on increasing affordable housing in our communities, and we are training more Black appraisers to combat appraisal bias.

But the 2024 NAREB SHIBA report demonstrates that we need all hands on deck! This is a Call to Action. Black homeownership must increase if America is to have fair and equitable communities. We need your help in our enduring pursuit of Democracy in Housing.

Executive Summary

In response to a three-decade high inflation rate that topped more than 9 percent in the summer of 2022, the Federal Reserve instituted a tight monetary policy that raised the federal funds rate seven times between 2022 and 2023. The economy remained surprisingly resilient, averaging 3.3 percent GDP in 2023 and 2.8 percent as of the third quarter of 2024. The housing market, however, was not as buoyant. Home mortgage originations declined in both 2022 and 2023, and the home mortgage market continued to struggle into the first three quarters of 2024.

In 2023, housing affordability and sales declined for the second straight year. Black female-headed households applying for mortgage credit without a co-borrower is the largest application pool for Black households and millennials are the largest Black application demographic. Applications and originations for both groups of Black prospective homebuyers declined in 2023.



The fall in Black millennial applications and originations is particularly worrying because that is the borrower group whose success most significantly

contributes to the potential for long-term wealth accumulation through homeownership. Their success also determines the long-term aggregate potential for Black homeownership increases.

In 2023, similar themes that have repeated themselves for decades continued to play out: Black mortgage applicants are turned down more often than Whites, when approved for loans, Blacks are more likely to receive high cost home loans than their White counterparts, houses in Black neighborhoods are less likely to be appraised at the same values compared to similar homes in Whites communities, and the homeownership gap between Blacks and Whites shows no signs of narrowing, regardless of the strength of Blacks in the labor market.

This report makes it clear; progress is not occurring in terms of Black Homeownership attainment. The past two years have been particularly difficult, but even prior to 2021, Black homeownership was either falling or stagnant and remains far from its pre-2004 high of nearly 50 percent.

A particular fact highlighted in this year's report is that lower-income Blacks and Whites are more likely to pay the highest rates for mortgage credit. This reality, more clearly than any other fact, demonstrates that the U.S. housing finance system is in serious need of a major overhaul.

It is unjustifiable that a government-backed housing finance system charges those with the least financial resources the most to access a government benefit. Not only does it place more

Note: All references and sources relied upon to draft this Introduction and Executive Summary are cited in detail in the text of this report and as endnotes after the conclusion. Links are provided to the majority of the referenced works. The authors thank the more than 250 researchers and scholars whose data and insights aided in the drafting of this report.

financial strain on the neediest households, but also it predisposes them to higher loan failure rates.

NAREB is pursuing numerous important partnerships and advocating for effective policies that could have a dramatically positive impact on Black homeownership. The most important of those initiatives require national leadership to accomplish. National leaders must seriously examine and improve the effectiveness of the U.S. housing finance system.

Black Homeownership

In 2023, the homeownership rate among Black households stood at only 45.7 percent, far below the 74.3 percent rate among White households. The current rate of Black homeownership is significantly lower than its peak level achieved in 2004 when it surpassed 49 percent.

Despite a gradual increase in the number of Black homeowners since the 1968 Fair Housing Act was implemented, the gap in homeownership rates between Black and White families is wider now than it was over fifty years ago. In 1970, the difference in homeownership rates between Black and White families was 23.8 percentage points. In 2024, it was almost 29 percentage points by 2023.

Black Wages and Wealth

Surging housing prices have continued to bolster the increase in homeowner equity, which stood at approximately \$298,000 per borrower by the close of 2023. Analysis from CoreLogic, indicates that U.S. homeowners holding mortgages, representing about 62 percent of all properties, experienced an 8.6 percent increase in home equity from the fourth quarter of 2022 through 2023.

The significant increase in housing equity last year, combined with a higher rate of homeownership rate and higher average home prices for White families, compared to Black families, further increased the Black-White racial wealth gap.



Federal Reserve System data on the distribution of wealth since 1989 indicate that in the fourth quarter of 2023, the average net worth – the value of assets that households own minus the liabilities that they owe – was \$1,415,470 for White households compared to \$332,390 for Black households.

Improvements in employment prospects or minor wage increases are insufficient to significantly narrow the Black-White racial wealth gap. The growth in household wealth is more significantly impacted by the rise in the value of assets than by incremental increases in pay.

Black performance in the labor market remained strong last year with unemployment averaging 5.5 percent for the full year 2023 compared to 3.3 percent for Whites. Although the Black-White unemployment rate gap was wide, it was narrower than its historical norm, where the rate of Black unemployment was twice the rate of White unemployment.

Further, in April of last year, Black unemployment reached 4.7 percent, its lowest level recorded by the Bureau of Labor Statistics. Yet despite relatively strong employment performance for Blacks last year, median gap wages between Blacks and Whites increased. The median wage for

Blacks was \$56,490 compared to \$89,050 for Whites. Nearly a quarter of Black households (compared to only 1 of 12 White) households have zero or negative wealth.



Black unemployment reflected the resilience of the U.S. economy despite the Federal Reserve's (the Fed) restrictive monetary policy. The Fed began raising the federal funds rate in 2022 in response to a 30-year spike in inflation of 9.1 percent in June of that year. By July of 2023, inflation had fallen significantly, but the Fed maintained its tight interest rate policy into 2024.

Gross Domestic Product (GDP) for the full year of 2023 was 3.3 percent, and the economy added 2.7 million jobs. The economy continued to grow through the first three quarters of this year, albeit it at a slightly slower growth rate of 2.8 percent through September of 2024.

The combination of steadily improving inflation and prospects of a slowing economy this year contributed to the Fed reversing course and entering a monetary easing period beginning this September.

The Fed lowered the federal funds rate by a half-percentage point in September 2024 to a 4.75 to 5 percent range. As of October 31, inflation had fallen

to 2.1 percent, a mere 0.1 percentage point above the Fed's target rate of 2 percent. As a result, the Fed further cut rates an additional quarter of a point on November 7, 2024.

Housing Affordability in 2023 and Beyond

The 30-year mortgage peaked at 7.79 percent in November of 2023 before falling through the end of that year. By May of 2024, however, rates had again bounced above 7 percent adding pressure to an already struggling housing market. In September 2024, however, the 30-year fixed rate mortgage rate hit a two-year low, approaching 6 percent, but that has not been enough to jumpstart the housing market.

A dramatic and unexpected fall in inflation in the latter part of 2023 suggested the housing market might finally be entering a long-awaited recovery this year. Unfortunately, residential investment fell in the second and third quarters of this year.

Meanwhile, home prices continued to remain high, 47 percent above pre-pandemic levels. As prices increase, so does the need to bring more money to the table at closing. Researchers at the Harvard Joint Center for Housing Studies estimate that a 3.5 percent downpayment on the median-priced home of \$389,400 in the first quarter of 2024 would need \$25,300 in cash. Harvard's annual State of Housing in the United States further finds that in the first quarter of 2024, only 14.5 percent or 6.6 of renter households has the income to afford the median-priced home.

Appraisal Bias Against Black Households and Communities

During the home purchase process, mortgage lenders require an appraisal to assess the property's worth and a low valuation can affect a

homebuyer's mortgage loan; the borrower may need to pay a higher downpayment to compensate for the undervaluation amount, pay a higher interest rate, experience more stringent insurance requirements, or be rejected. Like mortgage lenders and brokers, appraisers are subject to fair housing and lending laws.



Despite being illegal, a significant body of evidence underscores that properties in predominantly Black areas or in communities experiencing racial shifts are often appraised lower and increase in value more slowly compared to those in mainly White areas. This trend persists even when factors like the quality of the property, community amenities, and location are considered.

This year, NAREB contributed significantly to the housing market's understanding of appraisal bias with its study, *Appraisal Bias in Black and White: Disparities in the Estimated Valuation of Homes by Neighborhood Racial Composition*. The study is unique in that it is the first research to combine the Unified Appraisal Database with HMDA data to examine in more detail how Black and White buyers and sellers are treated by the home appraisal process in both Black and White neighborhoods.

The findings of that research reinforce the reality that Black buyers and homes in Black neighborhoods experience significant discrimination in the appraisal process that greatly undermines the returns to homeownership for Black households. In 2023, for example, after controlling for housing quality and neighborhood location, amenities, and socioeconomic characteristics, homes in Black neighborhoods experienced a median appraised home undervaluation gap of 30 percent (\$131,343) relative compared to \$430,915 in Black and White neighborhoods respectively.

The report did find, however, some important improvements in the manner in which Blacks are treated by the appraisal process since the establishment of the 2021 Interagency Task Force on Property Appraisal and Valuation Equity.

Institutional Investors

A shortage of homes on the market has helped keep home prices high despite stubbornly high mortgage rates. According to Zillow, the U.S. is short 4.5 million housing units. Further, the lack of homes placed on the market for sale is compounded by a continued lack of housing production.

The rapid growth of institutional investors further compounds the shortage of housing supply. Investors' share of the single-family home market grew through 2016, slowed between 2017 and 2019, and ignited again during the 2020-2021 pandemic. According to Redfin, investor purchases plunged last year by 50 percent but turned positive again in the first quarter of 2024.

Redfin estimates investors purchased 1 in 6 homes (or 16 percent) that sold in the second quarter of this year, with single-family homes accounting for nearly 70 percent of purchases. Investors continued to disproportionately buy lower-priced homes, accounting for 45 percent of investor purchases in the second quarter. That share accounted for nearly 25 percent of all lower-cost homes purchased in that quarter.



Investor purchases of lower-cost housing are a significant deterrent to increasing Black homeownership. Blacks disproportionately purchase lower-cost homes. Further, investors can pay cash for homes, which eliminates the need for an appraisal or inspection, which allows closing to occur quickly.

Climate Change and Black Homeownership

In 2023, the U.S. experienced \$114 billion in economic damages from natural disasters, more than the long-term average of \$105 billion. Black communities face disproportionately high risks from climate change effects. Historic discrimination, blatant and systemic, has led to Black families primarily living in areas more prone to natural disasters, which have become increasingly frequent and severe.

Blacks frequently reside in low-lying areas prone to flooding, where communities have scarce economic resources to prepare for or recover from severe weather-related disasters. The growing frequency and intensity of climate disasters exert immense strain on the deteriorating infrastructure of long-neglected Black neighborhoods in cities like New Orleans, Louisiana, Houston, Texas, and Jackson, Mississippi.

Twenty-one percent of the Black population in the U.S. is highly exposed to hurricanes compared to 11 percent of the White population. Blacks are also more exposed to coastal and riverine flooding as well as to wildfires and areas at high risk of heat waves.

In high-risk zones, local governments tend to invest more in flood protection in areas with higher incomes and property values. Moreover, federal support is often distributed through cost-benefit analyses that disproportionately favor wealthier, predominantly White neighborhoods over economically disadvantaged and racially diverse areas.

Compounding the negative implications for Black households is the fact that as climate change risks have increased many insurance companies have hiked premiums or withdrawn from high-risk areas. In 2023, insurers covered around \$80 billion of losses due to natural disasters. This situation has prompted insurers to raise premiums, limit coverage, and be more selective in underwriting to maintain profits.

Facing regulatory hurdles and cost coverage issues, insurers began reducing or halting new policy issuances in high-risk areas, leading to a 35 percent reduction in home insurance availability and a record 44 percent decline in online quote approvals by June 2023. Texas and Florida, where a cumulative 54 percent of mortgage loans

were issued to Black borrowers in 2023, were among the states with the highest hikes in home insurance premiums.

Without the availability of home insurance, securing a mortgage becomes impossible, forcing many homeowners from these communities to resort to state-provided insurance plans that typically offer limited protection. This situation exacerbates the financial strain of homeownership, as high insurance rates contribute to the disproportionately higher mortgage costs faced by Black homeowners and borrowers, hindering their ability to build equity.



In September 2023, the Administration introduced the National Climate Resilience Framework to develop comprehensive resilience strategies. This Framework focuses on embedding climate resilience, enhancing the resilience of built environments, mobilizing capital for climate resilience, equipping communities with climate risk information, managing lands and waters sustainably, and supporting communities to become safer, healthier, and economically stronger.

This effort is a useful start to dealing with the disparate impacts of climate change on Black communities. Much more will be needed to have a meaningful impact in the years to come.

NAREB Policy Priorities and Recommendations

NAREB has launched a wide range of local and national partnerships as well as is advocating for several national policy changes to the U.S. housing finance market.

NAREB Partnership Initiatives

1. The NAREB Black Developers Academy. This initiative seeks to be a transformative effort that increases Black participation in the real estate development industry by providing aspiring Black professionals with the skills, knowledge, and opportunities to become successful housing and community development professionals.

2. NAREB partnership with the Housing Preservation Exchange (HPE). The HPE is a nonprofit organization that works in alliance with federal, state, and local agencies, as well as nonprofit and philanthropic institutions to sustain and expand homeownership.

3. NAREB Building Black Wealth Tour. Homeownership begins with preparing financially to become homeowners and then applying for a mortgage. NAREB has committed to pursue a more than 100 cities tour that will provide mortgage ready households with the information and resources they need to successfully achieve the American Dream of homeownership.

NAREB National Policy Priorities

1. Enact a National Homeownership Tax Credit Program. The National Low Income Tax Credit produces new and rehabilitated, affordable rental housing in underserved urban and rural communities and in high-cost suburban areas across the nation.
2. Expand Section 184 to Include Black Mortgage Borrowers. Currently, HUD operates a Section 184 program to provide significant financial homeownership benefits to Native Americans and Alaskan Native households, tribes, or housing entities.
3. Eliminate Loan Level Price Adjusters. Prior to the housing collapse in 2008, Fannie Mae and Freddie Mac charged all borrowers, regardless of their credit risk profile, roughly the same amount in mortgage guarantee fees. Borrower risk was assessed at the individual loan level, but loans were pooled, and the average cost of the pooled loans' risk was charged for mortgage credit.
4. Provide Student Loan Debt Relief. Student debt is a major impediment for Black homeownership. Blacks are more likely than other demographic groups to be burdened by student debt; on average Blacks have higher levels of student debt, are more likely to have financial crisis after graduation, and are the only student loan borrower group to experience an increase in their student loan debt, above its initial loan balance, years after graduation.

Ending Appraisal Bias Against Black Borrowers and Communities

NAREB launched its first in a series of Research Black Papers this fall titled Appraisal Bias in Black and White. Disparities in the Estimated Valuation of Homes by Neighborhood Racial Composition. The report is summarized and recommendations highlighted in this report.

2023 HMDA Highlights

Loan Applications and Originations by Race and Ethnicity

- In 2023, applications and loan originations declined by 21 percent. Applications and approvals for home loans decreased for all racial and ethnic categories.
- Applications for conventional and non-conventional loans to Blacks decreased by 26 percent and 16 percent respectively.
- In 2023, 42 percent of Black applicants applied for conventional loans, and 41 percent of Black applicants applied for FHA-insured loans.
- As discussed in last year's SHIBA report, the decline in FHA-insured applications may be attributed to several factors including (1) the post-financial crisis decline in the FHA share of loans originated by the largest banks, partly due to stepped-up enforcement of the False Claim Act; (2) the increase in FHA mortgage insurance premiums; and (3) the availability of conventional loans with just a 3 percent down payment through Fannie Mae and Freddie Mac.
- Most loan originations to Black borrowers -- 58 percent -- were non-conventional products.
- In 2022, non-conventional loans to Black borrowers outnumbered conventional loans by 10 percentage points. In 2023, this gap was 16 percentage points.
- Black households continue to be highly reliant on FHA loans, despite a noticeable decline in FHA loan applications from Black applicants. In 2023, only 19 percent of loans to Black

borrowers were acquired by the GSEs, compared to 35 percent of loans provided to White borrowers.

- By contrast, FHA-insured loans constituted 41 percent of the loans to Black borrowers, in contrast to 14 percent for White borrowers.

Loan Denial Rates by Race and Ethnicity

- Black applicants are denied mortgages at more than double the rate of White applicants, with 17 percent for Blacks compared to 7 percent for Whites.
- The denial rate for conventional loans for Black applicants was nearly three times higher than that for White applicants—17 percent versus 6 percent.
- The denial rate for non-conventional loans was less pronounced with a 17 percent denial rate for Black applicants compared to 9 percent for White applicants.
- Thirty-seven percent of Black applicants in 2023 earned at or below 80 percent of their local area median income (AMI), compared to 27 percent of White applicants. Conversely, only 32 percent of Black applicants earned above 120 percent of the local AMI, versus 46 percent of White applicants.
- Debt-to-income ratios were the leading cause of rejections for both Black and White applicants. Among Black applicants, 42 percent of denials were attributed to this factor, an increase from 39 percent in 2022. For White applicants, the figure was 37 percent, up from 34 percent the previous year.
- Credit history was the second most common reason for denials for Black applicants – 17 percent – whereas insufficient collateral

represented the second most common reason for denial of loans to White applicants – 17 percent.

In 2023, Blacks continue to receive high-cost loans at twice the rate as that for Whites, at 6 percent and 3 percent for Black and White borrowers, respectively.

- Loan origination failure rate is a comprehensive indicator of unsuccessful loan application outcomes, that considers loan denials, loans withdrawn for incomplete information, and loans that were approved but not accepted by the applicant.
- Black applicants experienced a 38 percent overall failure rate, compared to 25 percent for White applicants.



Loan and Lender Channels by Race and Ethnicity

- The share of loan originations from Banks fell precipitously from 2008 to 2021, declining from 51 percent to 28 percent. During that period, the share of the mortgage market for nonbank lenders rose from 34 percent to 67 percent.
- In 2023, the dominance of nonbank lenders in the mortgage market persisted, though they experienced a 5 percent drop in market share from 2021. Banks continued to attract a larger proportion of White applicants, with 39 percent of Whites

opting for banks compared to 28 percent for Black applicants.

- Applications to banks, savings institutions, and credit unions from both racial groups were more common among the very low-income and very high-income bracket applicants.
- Black applicants most frequently apply for FHA-insured loans at independent mortgage companies (32 percent), while most White applicants seek and obtain conventional loans at these firms (37 percent).
- Loan origination rates are notably higher at independent mortgage companies than at banks for all racial categories. However, a persistent discrepancy in origination rates between Black and White applicants exists across all institutions.
- White applicants had a noticeably higher origination rate (79 percent at independent mortgage companies and 72 percent at banks) than Black applicants (70 percent and 57 percent).
- Denial rates for applicants with incomes below 120 percent of their local AMI increased at banks for both racial groups from 2022, particularly for Black applicants.
- The denial rate also increased at independent mortgage companies for Black applicants with incomes below 80 percent of the local AMI and White applicants with incomes below 50 percent of the local AMI.
- In 2023, independent mortgage companies exhibited lower denial rates than banks. Banks denied Black applicants at a rate of 23 percent compared to a rate of 9 percent for Whites. At independent mortgage firms, denial rates were 15 percent for Black applicants and 6 percent for White applicants.
- This disparity in denial rates remained consistent across different income levels and lender types.

High-income Black applicants at banks experienced a 19 percent denial rate, compared to a 7 percent rate among White applicants—a difference of 12 percentage points.

- The gap among very low-income applicants was 15 percentage points (38 percent for Black applicants versus 23 percent for White applicants).

Loan Type, Geographic Patterns, and Race

- From 2022 to 2023 the share of loans to Blacks in low- and moderate-income neighborhoods increased from 32 percent to 34 percent. In contrast, only 16 percent of loans to White applicants were for homes in low- and moderate-income neighborhoods.
- The proportion of Black applicants securing loans for homes in predominantly minority neighborhoods rose from 54 percent in 2022 to 55 percent in 2023. The share of loans to White borrowers for properties in minority neighborhoods remained unchanged since 2022 at 12 percent.
- Black applicants in majority-minority neighborhoods experienced denial rates more than twice as high (18 percent) as White applicants in the majority-minority neighborhoods (8 percent), with variations in denial rates observed across different income levels.
- Interestingly, high-income Black applicants had increased approval rates in neighborhoods with fewer Black residents, whereas low-income Black applicants saw higher approval rates in predominantly Black neighborhoods.

Cities with Largest Black Populations and Higher Levels of segregation

- The Black population in these cities ranges from about 307,000 in Dallas to around 2 million in New York.
- In major cities such as New York, Los Angeles, Chicago, Houston, and Dallas – where in 1990, the Black population accounted for less than 40 percent of the overall population – there has been a significant decrease in the proportion of Black residents over time.
- In the other selected cities, there was an increase in the share of the Black population in 2022 compared to 1990. In Memphis, in particular, the Black population rose to 64 percent in 2022, a dramatic increase from 51 percent in 1990.
- The dissimilarity index is a widely used metric for determining residential segregation levels. It gauges how much Black individuals would need to relocate within different census tracts to achieve a uniform geographic spread across the city compared to White individuals. A dissimilarity index above 60 percent is typically considered to be high.



- Every city listed, except for Detroit and Charlotte, exhibit high levels of segregation between Black and White residents, with indices ranging from .63 in Los Angeles to .81 in Chicago.
- In the ten cities examined, the proportion of loan applications submitted by and loans issued to Black individuals falls significantly short of their shares of the populations in those cities.
- The ten cities exhibit notable differences in the kinds of loans pursued by Black applicants. For example, in cities such as Baltimore, Chicago, Detroit, and Philadelphia, most applications were for FHA-insured loans. Conversely, in the remaining cities, Black borrowers predominantly applied for conventional loans.

Mortgage Lending to Black Female Applicants

- In 2023, women applying without a co-applicant continued to comprise the largest portion of Black mortgage loan applicants; however, the number of Black women who submitted loans decreased by 24 percent from 2022.
- The applicant pool for Blacks and Whites also continued to be very different; Black women without a co-applicant constituted 38 percent of Black applicants, Black men without a co-applicant accounted for 33 percent of Black applicants, and Black male and female joint applicants accounted for the remaining 23 percent of applications from Blacks.
- As in prior years, White women applying without a co-applicant was the smallest White applicant pool at 21 percent in 2023. The

biggest segment within the White applicant demographic was male and female applicants submitting applications jointly (43 percent), followed by White male applicants at 32 percent.

- For Black women, FHA loan applications dropped by 20 percent, while conventional loan applications declined by 27 percent compared to the previous year.
- In 2023, FHA-insured loans accounted for 44 percent of the applications by Black females compared to only 17 percent seen among White female applicants.
- In 2023, the number of loan originations to Black women fell by 24 percent from the previous year. The origination rate for Black women was 62 percent.
- White female borrowers experienced a 74 percent approval rate.
- In 2023, the denial rate for Black women who applied for loans was 18 percent, more than double the 8 percent denial rate for their White female counterparts.
- Black female borrowers continue to have high-cost loans (6 percent) at double the rate for White female borrowers, at 3 percent.

Homeownership Among Black Millennials

- The homeownership rate gap between Black and White millennials is wide and increasing. In 2023, the homeownership rate among Black millennials was 32 percent, less than half of the 65 percent rate observed among White millennials.
- From 2022 to 2023, both applications from and loan approvals to Black Millennials decreased by approximately 21 percent.



- In 2023, millennials accounted for 33 percent of the White applicant pool compared to 25 percent for Blacks.
- Black millennials faced a much higher denial rate for their applications compared to White millennials—16 percent versus 6 percent.
- Debt-to-income ratio was identified as the primary rejection reason for 42 percent of Black millennial applications as opposed to 33 percent for White millennials. Credit history was the second most cited reason for application denial for Black millennials at 16 percent.
- Six percent of Black millennial borrowers were approved for high-cost loans in 2023, as opposed to only 3 percent of White millennial borrowers.

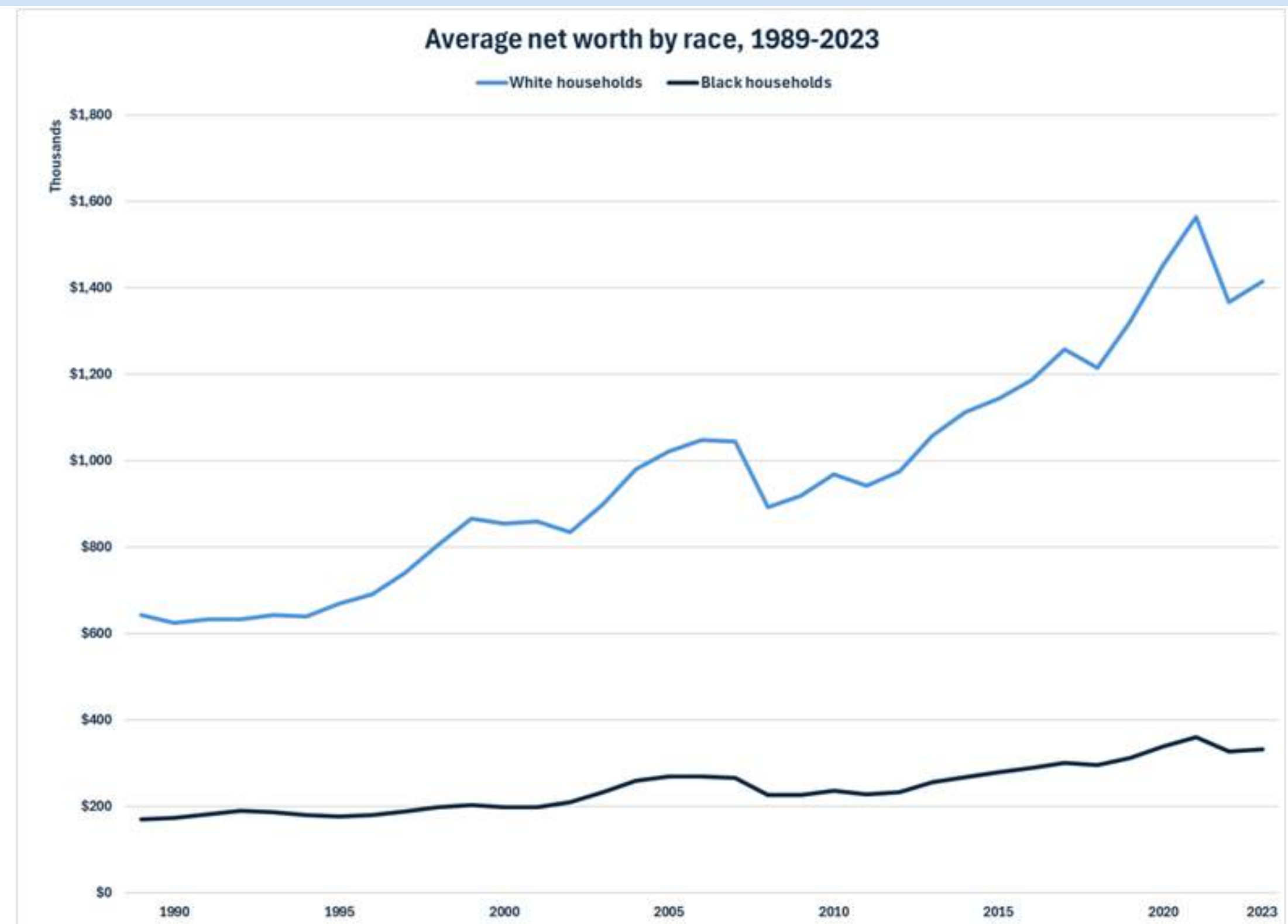
Homeownership and Wealth Inequality

Surging housing prices have continued to bolster the increase in homeowner equity, which stood at approximately \$298,000 per borrower by the close of 2023. ¹Analysis from CoreLogic indicates that U.S. homeowners holding mortgages, representing about 62 percent of all properties, experienced an 8.6 percent increase in home equity from the fourth quarter of 2022.

The significant increase in housing equity last year, combined with a higher rate of homeownership rate and higher average home prices for White families, compared to Black families, further increased the Black-White racial wealth gap. As discussed in last year's report, the wealth gap between Blacks and Whites saw significant narrowing immediately after slavery ended and during the Reconstruction era. However, this gap leveled off during the mid-20th century and has, in recent times, begun to widen again (Exhibit 1).

Federal Reserve System data on the distribution of wealth since 1989 indicate that in the fourth quarter of 2023, the average net worth – the value of assets that households own minus the liabilities that they owe – was \$1,415,470 for White households compared to \$332,390 for Black households.²

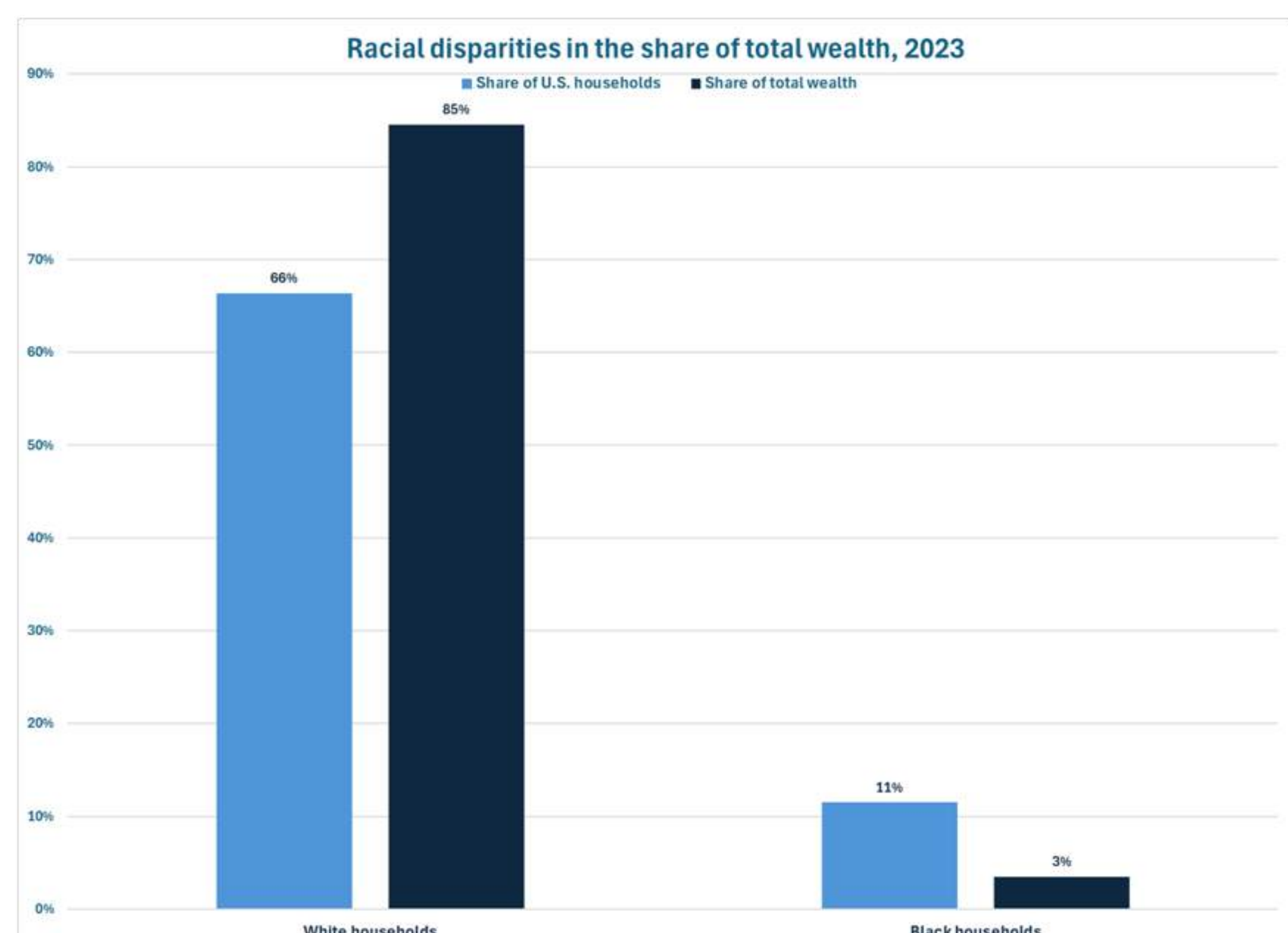
EXHIBIT 1



Source: Board of Governors of the Federal Reserve System. "DFA: Distributional Financial Accounts. Distribution of Household Wealth in the U.S. since 1989." <https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/#quarter:138;series:Net%20worth;demographic:race;population:1,3;units:levels;range:2009.1,2023.4>. Accessed October 2024.

Based on the same data, White households possess 85 percent of total U.S. household wealth although they constitute only 66 percent of U.S. households. In contrast, Blacks account for a mere 3 percent of U.S. household wealth but 11 percent of U.S. households. (Exhibit 2).

EXHIBIT 2



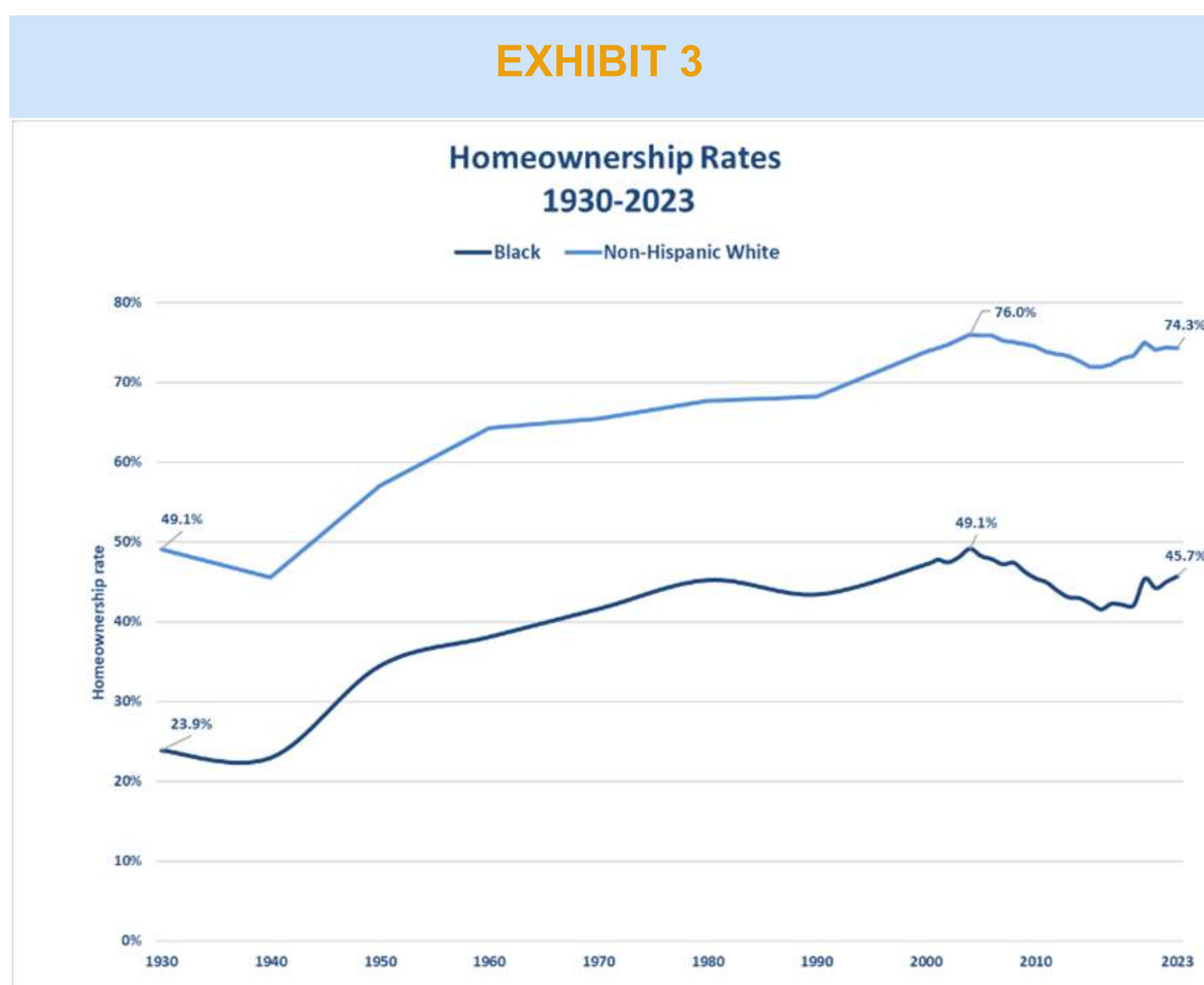
Source: Board of Governors of the Federal Reserve System. "DFA: Distributional Financial Accounts. Distribution of Household Wealth in the U.S. since 1989." <https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/#quarter:138;series:Net%20worth;demographic:race;population:1,3;units:levels;range:2009.1,2023.4>. Accessed October 2024.

The enduring nature of the wealth disparity can be linked to numerous policies throughout the 1900s that explicitly barred Black Americans from participating in economic activities and from accessing various federal benefits, including those related to homeownership, which were made available exclusively to White families.³

A significant factor contributing to the large wealth disparity between Black and White populations is the higher rate of homeownership among White families. Numerous reports from NAREB have underscored that Blacks not only face significant hurdles in achieving homeownership when compared to Whites, but today, the divide in homeownership rates between Blacks and Whites is even wider than almost a hundred years ago, as shown in Exhibit 1.

This disparity is directly linked to severe instances of explicit discrimination in the labor and housing markets against Blacks throughout the 20th century, actions that were upheld and sometimes required by federal legislation.⁴ Today, the racial gap in homeownership remains entrenched, reinforced through systemic biases embedded within the current housing finance system.⁵

Black families face considerable barriers to homeownership, and their financial gains from homeownership are not as substantial as those of White families. In 2023, the homeownership rate among Black households stood at only 45.7 percent, in stark contrast to the 74.3 percent rate among White households. The current rate of Black homeownership is significantly lower than its highest level in 2004, when it surpassed 49 percent (Exhibit 3).



Source: U.S. Census Bureau. Current Population Survey/Housing Vacancy Survey, March 12, 2024, <https://www.census.gov/housing/hvs/data/prevann.html>. Accessed October 2024.

Despite a gradual increase in the number of Black homeowners since the 1968 Fair Housing Act was implemented, the gap in ownership rates between Black and White families is wider now than it was over fifty years ago. In 1970, the difference in homeownership rates between Black and White families was 23.8 percentage points, which rose to almost 29 percentage points by 2023 (Exhibit 4)



Source: Authors' calculations of data from U.S. Census Bureau. Housing Vacancies and Homeownership (CPS/HVS), <https://www.census.gov/housing/hvs/data/histtabs.html>. Accessed October 2024.

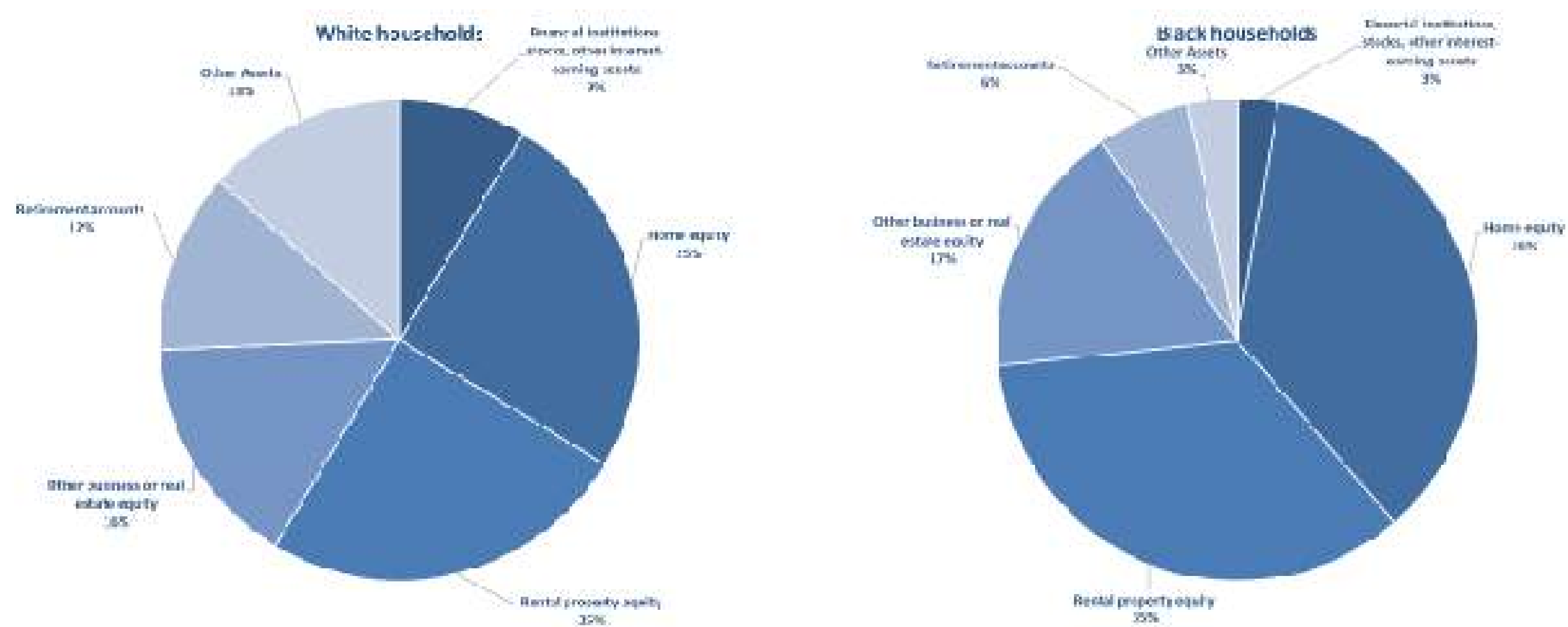
Another important factor contributing to the racial wealth gap is the disproportionately higher valuation of properties in predominantly White areas. Research consistently shows that the valuation gap between homes in Black and White neighborhoods cannot be fully accounted for by traditional market factors such as the location, type, size, or construction quality of the housing.⁶ Studies indicate that homes in White neighborhoods are appraised at higher values than those in Black communities, a difference that is linked to the racial makeup of these areas.⁷

On average, white households also attain homeownership at an earlier age than Black households. The extended period of homeownership for White households, compared to their Black counterparts, also plays a significant role in the increased overall returns from homeownership for White homeowners over Black homeowners. Researchers at the Urban Institute indicate that, typically, White families amass greater wealth throughout their lives compared to Black or Hispanic families within the same age cohort, leading to a broader wealth disparity as individuals age.⁸

The composition of asset portfolios of White households is also more diversified than that of Black households (Exhibit 5). In 2022, retirement accounts and other assets – including educational savings accounts, annuities and trusts, and cash value life insurance – comprised 26 percent of total assets for White households compared to only 9 percent among Black households. Approximately 21 percent of Black households had zero or negative equity in 2022, compared to 9.5 percent of White households.⁹

EXHIBIT 5

Composition of asset portfolios of Black and White households, 2022.

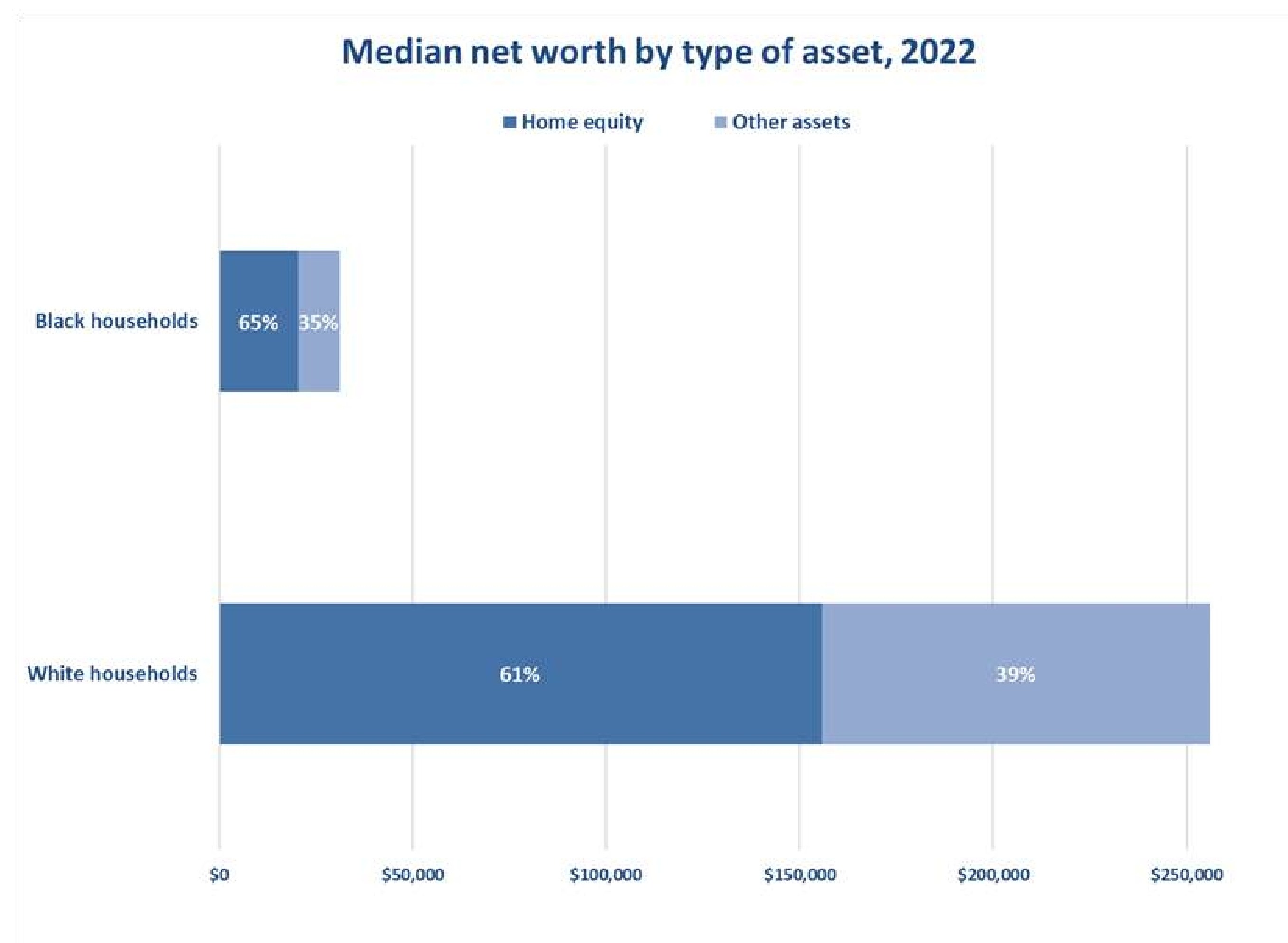


Source: Authors' calculations of data from U.S. Census Bureau. Survey of Income and Program Participation, Survey Year 2023, Public Use Data, Project No. P-7516454, Dataset D-0000004561, 11 July 2024. <https://www.census.gov/data/tables/2022/demo/wealth/wealth-asset-ownership.html>. Accessed October 2024.

For American families, and especially for communities of color, owning a home is a critical pathway to building wealth. According to the 2023 Survey of Income and Program Participation, home equity made up a larger share of the net worth for Black families than for White families in 2022 as has been the trend (see Exhibit 6). Specifically, 65 percent of the median net worth of Black families was tied up in home equity, compared to 61 percent for White families. Stated otherwise, White families maintain a higher rate of asset diversification than do Black households even though White households, on average, hold a much larger amount of home equity than the typical Black household. Further compounding the issue, Black homeowners are more likely to be saddled with high-cost loans, which diminish the financial benefits of owning a home.

Improvements in employment prospects or minor raises wages increases are insufficient to significantly narrow the Black-White racial wealth gap. The growth in household wealth is more significantly impacted by the rise in the value of assets than by increments in pay. Given that White households hold more valuable assets and enjoy a broader range of investments than Black households, the disparity in wealth between these two demographics is anticipated to continue to increase for the foreseeable future.

EXHIBIT 6



Source: Authors' calculations of data from U.S. Census Bureau. Survey of Income and Program Participation, Survey Year 2023, Public Use Data, Project No. P-7516454, Dataset D-0000004561, 11 July 2024, <https://www.census.gov/data/tables/2022/demo/wealth/wealth-asset-ownership.html>. Accessed October 2024.

Review of 2023 HMDA Data

Loan Applications and Originations by Race and Ethnicity

In 2023, the volumes of home mortgage applications and loan originations for the purchase of single-family homes continued to decline. Both applications and loan originations decline by 21 percent between 2022 and 2023 (see Table 1). The number of applications and approvals for home loans decreased for all racial and ethnic categories, with White applicants experiencing a particularly notable drop.

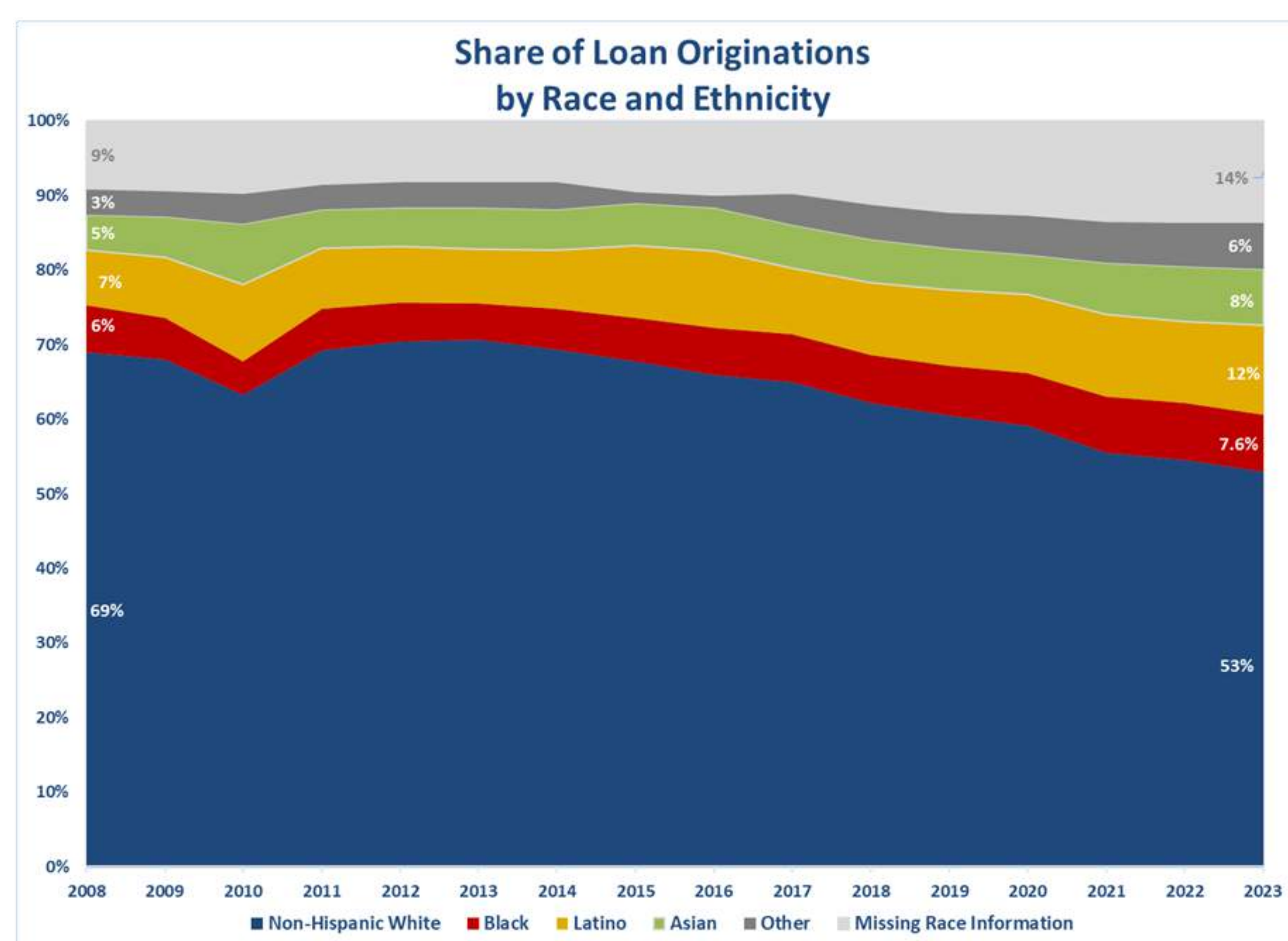
The number of mortgage applications submitted by Black, Latino, and Asian individuals has seen a significant increase since the housing market downturn in 2008, which was triggered by a substantial bubble in house prices in the early 2000s. Specifically, for Black Americans.

The proportion of total mortgage loans granted to Black borrowers rose from 6 percent in 2008 to 8 percent in 2023. Stated otherwise, the volume of loans issued to Blacks was 1.8 times higher in 2023 than in 2008. Although there has been a slight uptick in the percentage of mortgages going to Black applicants from 2021 to 2023, Black Americans are still notably underrepresented in the borrower demographic. This 8 percent is significantly less than the 12 percent representation of Blacks among U.S. households.

White Americans were granted 53 percent of all mortgage loans in 2022, and while this remains the majority share among all racial and ethnic groups, the trend shows a gradual decrease in their portion, signifying a rising diversity in loan distribution among various racial and ethnic groups, as indicated in Exhibit 7.

For more detailed information on housing data from 2004 to 2007, refer to previous SHIBA reports that analyze HMDA data. The population figures cited are based on the 2022 American Community Survey by the U.S. Census Bureau.¹⁰

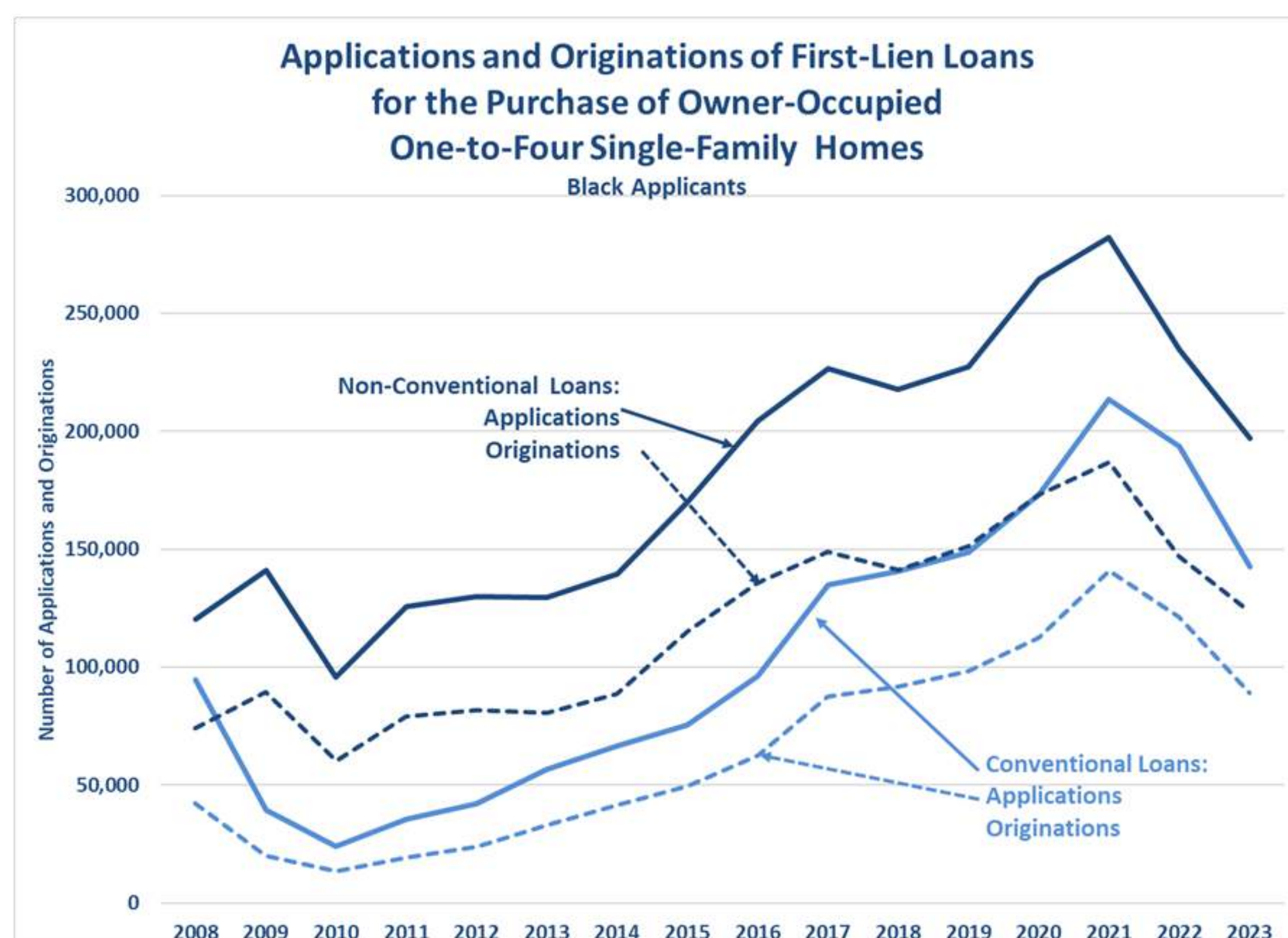
EXHIBIT 7



Source: Authors' calculations of HMDA data (2008-2023)

From 2022 to 2023, applications and loan originations to White borrowers declined by 23 percent. The number of applications loan originations to Black borrowers also decreased in 2023, and the volume of applications – 339,673 -- were lower than that recorded from 2017 to 2022. The volume of applications from Blacks peaked in 2021 – 495,503. Applications for conventional loans decreased from 193,751 in 2022 to 142,516 in 2023, a 26 percent decrease (Exhibit 8). Applications for non-conventional loans decreased by 16 percent.

EXHIBIT 8

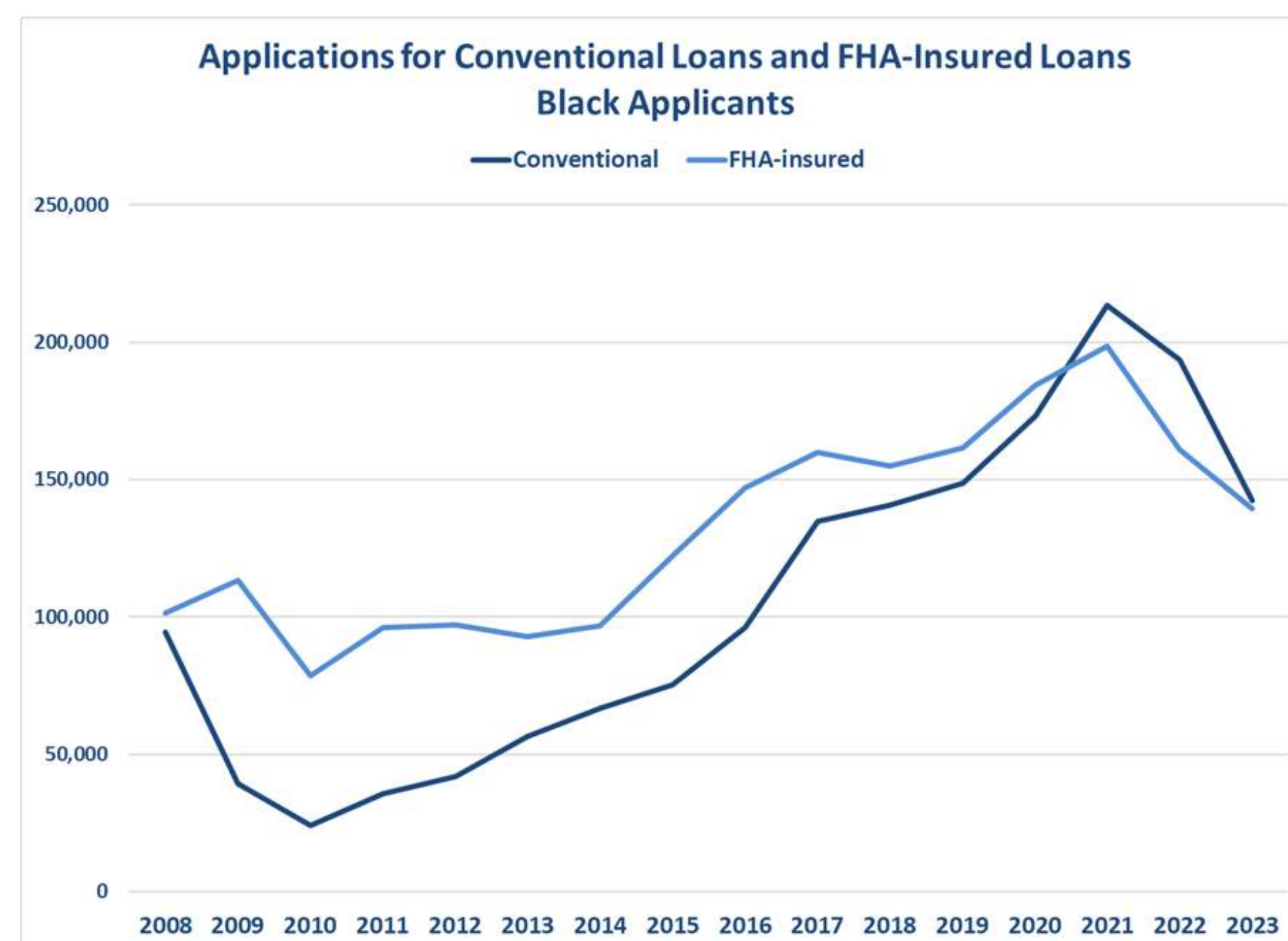


Source: Authors' calculations of HMDA data (2008-2023)

The decline in conventional loan applications was steeper than the 14 percent decrease in FHA-insured loan applications from Blacks from 2022 to 2023. The gap in the number of applications from Blacks between FHA-insured loans and conventional loans narrowed considerably in 2023 (Exhibit 9).

In 2023, 42 percent of Black applicants applied for conventional loans and 41 percent of Black applicants applied for FHA-insured loans. As discussed in last year's NAREB report, the decline in FHA-insured applications may be attributed to several factors including: (1) the post-financial crisis decline in the FHA share of loans originated by the largest banks, partly due to stepped-up enforcement of the False Claim Act;¹¹(2) the increase in FHA mortgage insurance premiums;¹²and (3) the availability of conventional loans with just a 3 percent down payment through Fannie Mae and Freddie Mac.¹³

EXHIBIT 9

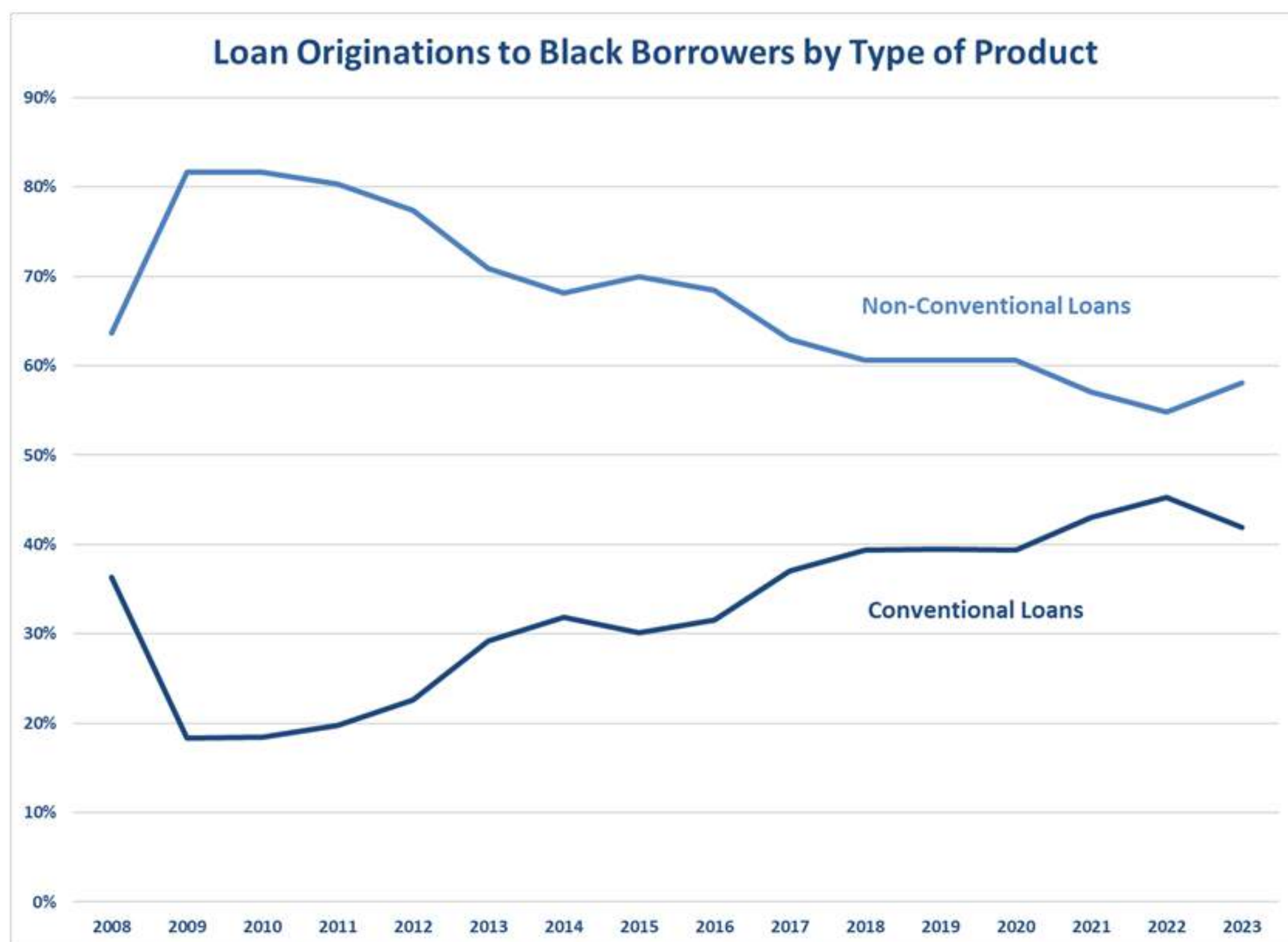


Source: Authors' calculations of HMDA data (2008-2023)

Conventional loan originations to Blacks decreased by 27 percent between 2022 and 2023, continuing the trend observed in the previous year. In 2023, only 4.6 percent of all originated conventional loans went to Black borrowers in 2022.

Non-conventional loan originations to Black borrowers decreased by 16 percent in 2023 relative to 2022. Blacks received 14 percent of all non-conventional loans in 2023. The majority of loan originations to Black borrowers -- 58 percent -- were non-conventional products. The gap between conventional and non-conventional loans widened between 2022 and 2023(See Exhibit 10 and Tables 2 and 3 for more detail on 2023 data). In 2022, non-conventional loans to Black borrowers outnumbered conventional loans by 10 percentage points. In 2023, this gap was 16 percentage points.

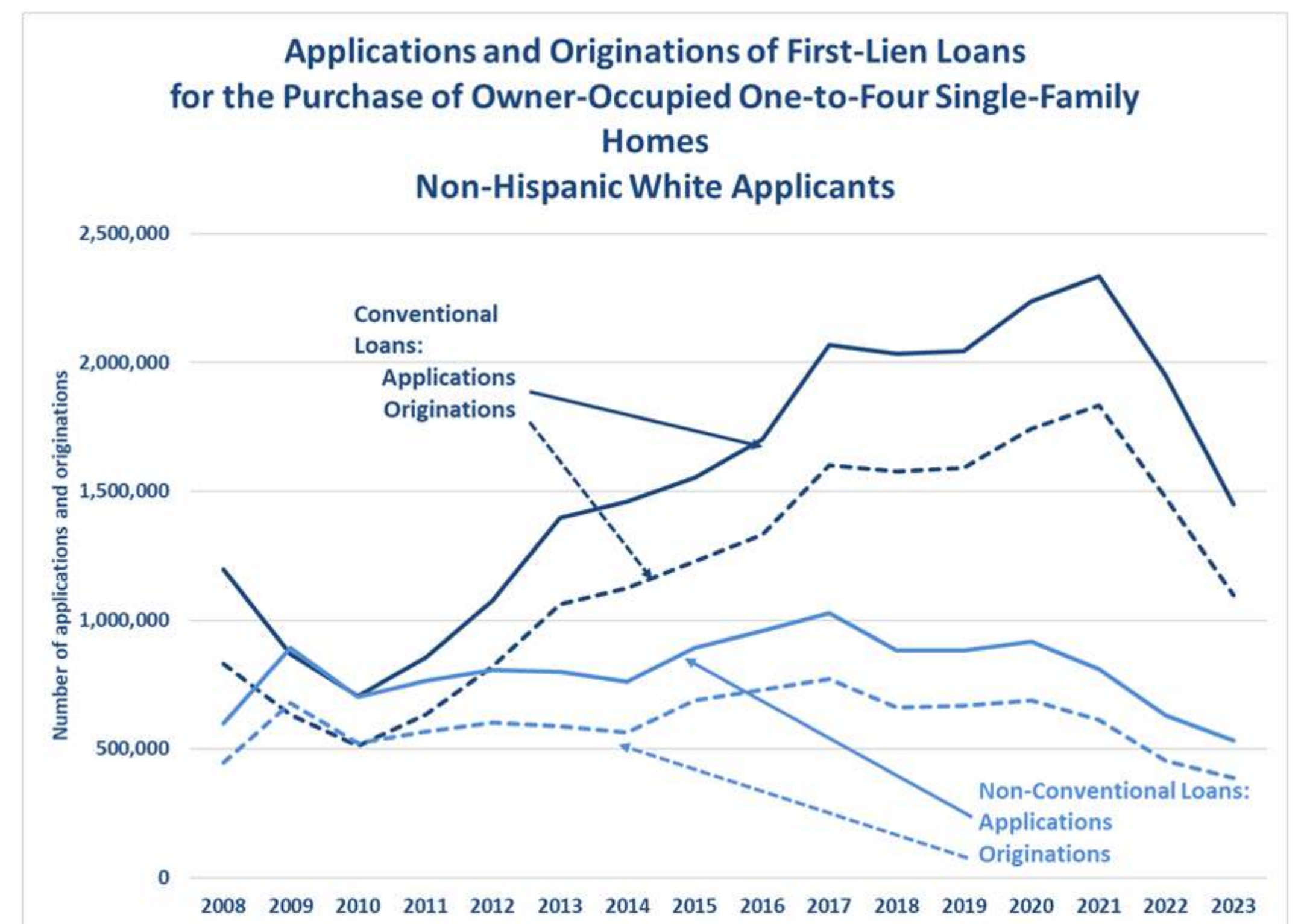
EXHIBIT 10



Source: Authors' calculations of HMDA data (2008-2023)

As in past years, the bulk of loan applications submitted by White prospective homebuyers in 2023 were for conventional loans. White applicants accounted for 57 percent of all conventional loan originations and 44 percent of all originations for non-conventional loans during the year. The disparity between conventional and non-conventional loans (both in terms of applications and actual loans originated) for White applicants has widened since the housing crisis of 2008, as highlighted in Exhibit 11. Yet, 2023 saw a continuing decrease in conventional loan originations to White borrowers, which led to a reduced discrepancy between conventional and non-conventional loans for this demographic.

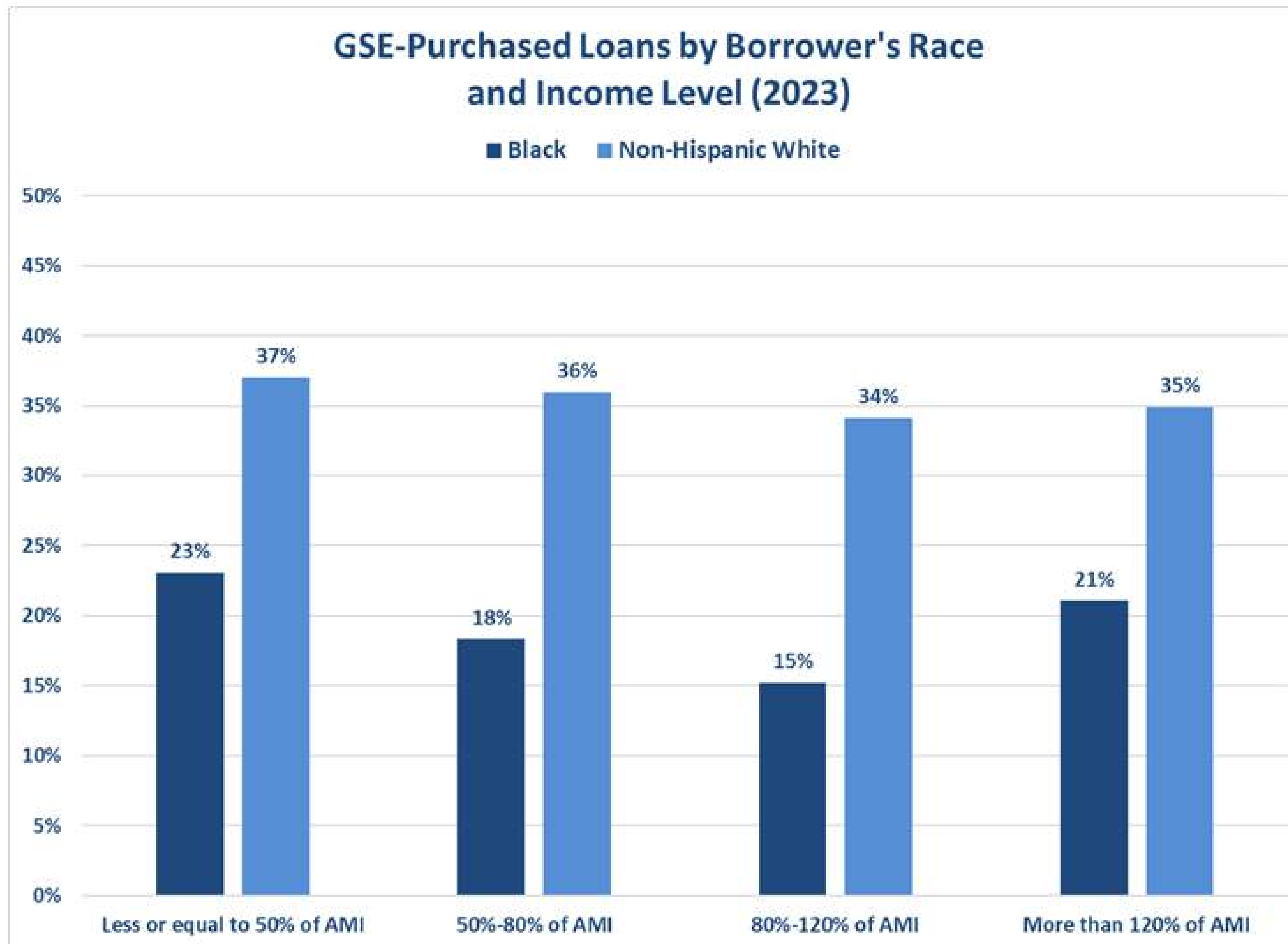
EXHIBIT 11



Source: Authors' calculations of HMDA data (2008-2023)

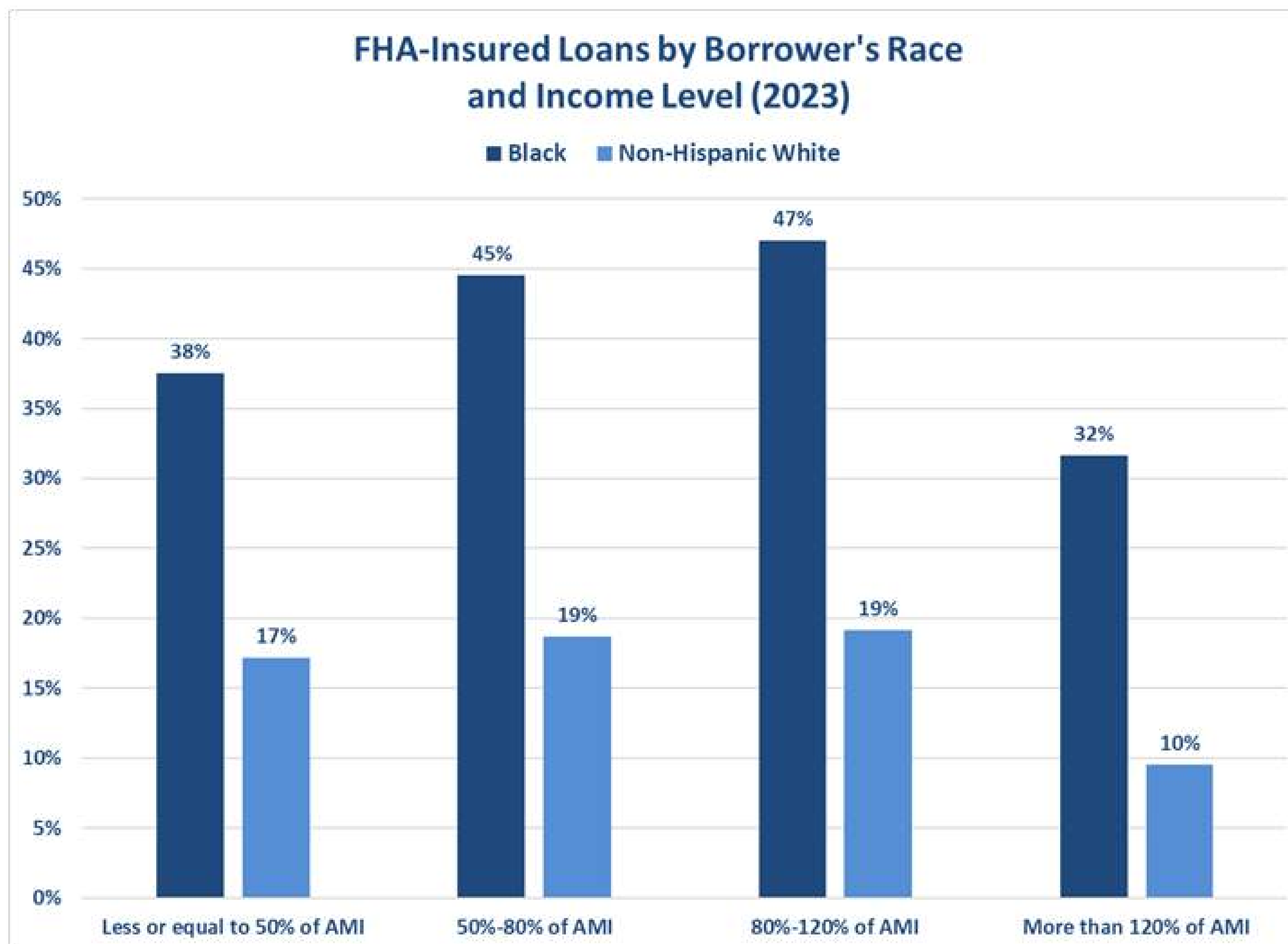
Meanwhile, Black borrowers continue to be significantly under-represented regarding access to loans offered by Fannie Mae and Freddie Mac. Black households continue to be highly reliant on FHA loans, despite a noticeable decline in FHA loan applications from Black applicants. In 2023, only 19 percent of loans to Black borrowers were acquired by the GSEs, compared to 35 percent of loans provided to White borrowers. By contrast, FHA-insured loans constituted 41 percent of the loans to Black borrowers, in contrast to 14 percent for White borrowers (Table 6). The variations in loan types obtained by Black and White borrowers are consistent across different income levels, as shown in Exhibits 12 and 13. These trends are also evident on a regional basis.

EXHIBIT 12



Source: Authors' calculations of 2023 HMDA data

EXHIBIT 13

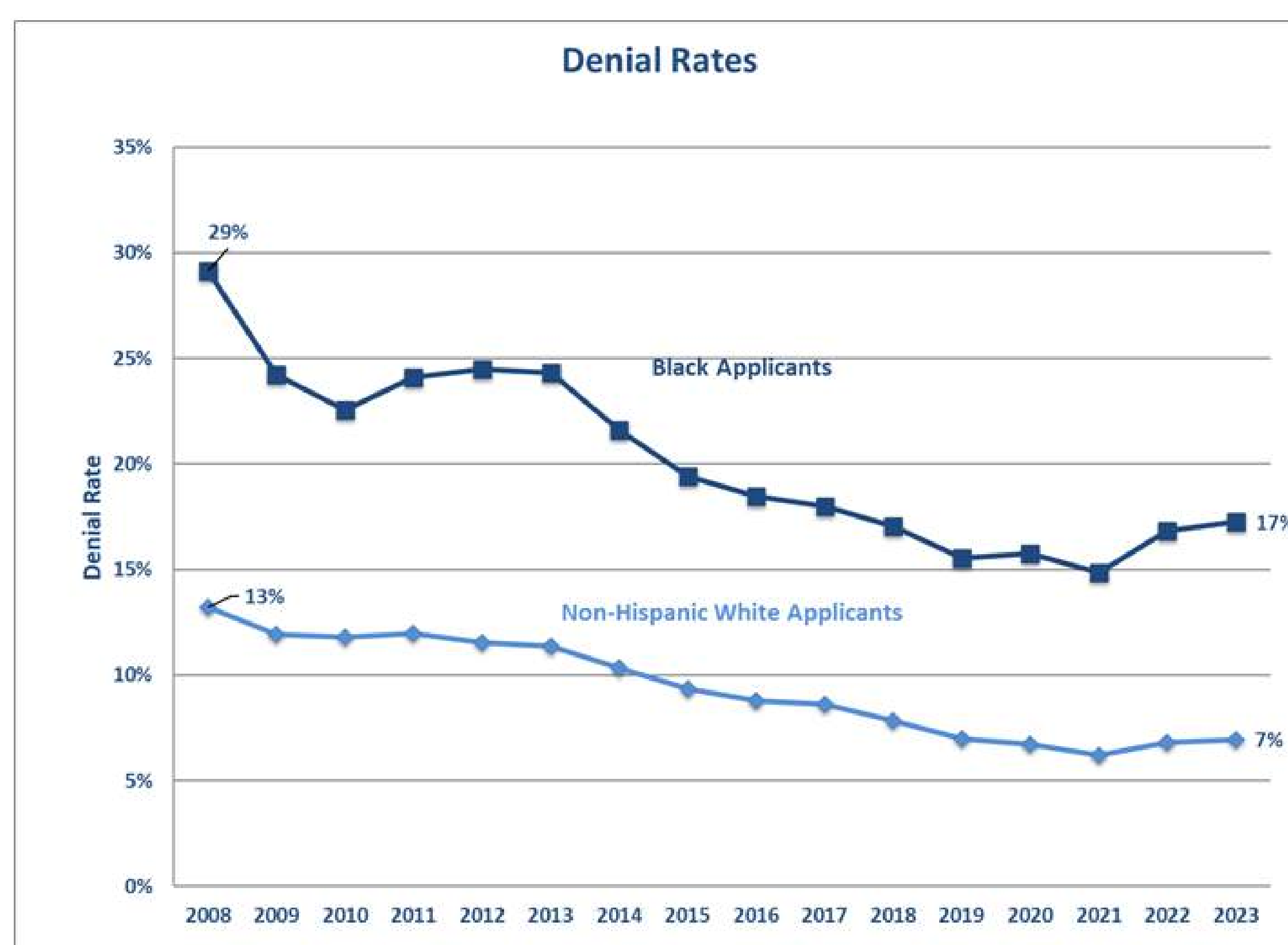


Source: Authors' calculations of 2023 HMDA data

Loan Applications and Originations by Race and Ethnicity

In 2023, a comparison of loan denial rates reveals that Black applicants still face greater challenges than their White counterparts, with these rates unchanged from 2022 levels.¹⁴ However, these rates are still below those seen in 2008. Specifically, Black applicants are denied mortgages at more than double the rate of White applicants, with 17 percent for Blacks compared to 7 percent for Whites as shown in Exhibit 14.

EXHIBIT 14



Source: Authors' calculations of HMDA data (2008-2023)

For conventional loans, the denial rate for Black applicants was nearly three times higher than that for White applicants—17 percent versus 6 percent, respectively, as detailed in Table 2. The disparity was less pronounced in non-conventional loans, with a 17 percent denial rate for Black applicants compared to 9 percent for White applicants (Table 3). Although high relative to White borrowers, the denial rate for Blacks in the conventional market has fallen significantly since its peak of 36 percent in 2008, during the height of the foreclosure crisis. Despite this improvement, Black applicants still encounter the highest denial rates among people of color.

In terms of income, 37 percent of Black applicants in 2023 earned at or below 80 percent of their local area median income (AMI), compared to 27 percent of White applicants. Conversely, only 32 percent of Black applicants earned above 120 percent of the local AMI, versus 46 percent of White applicants, as further detailed in Table 4.

The distribution of loan application denials in 2023, depicted in Table 7, shows that high debt-to-income ratios were the leading cause of rejections for both Black and White applicants. Among Black applicants, 42 percent of denials were attributed to this factor, an increase from 39 percent in 2022. For White applicants, the figure was 37 percent, up from 34 percent the previous year. Credit history was the second most common reason for denials for Black applicants – 17 percent – whereas insufficient collateral represented the second most common reason for denial of loans to White applicants – 17 percent.

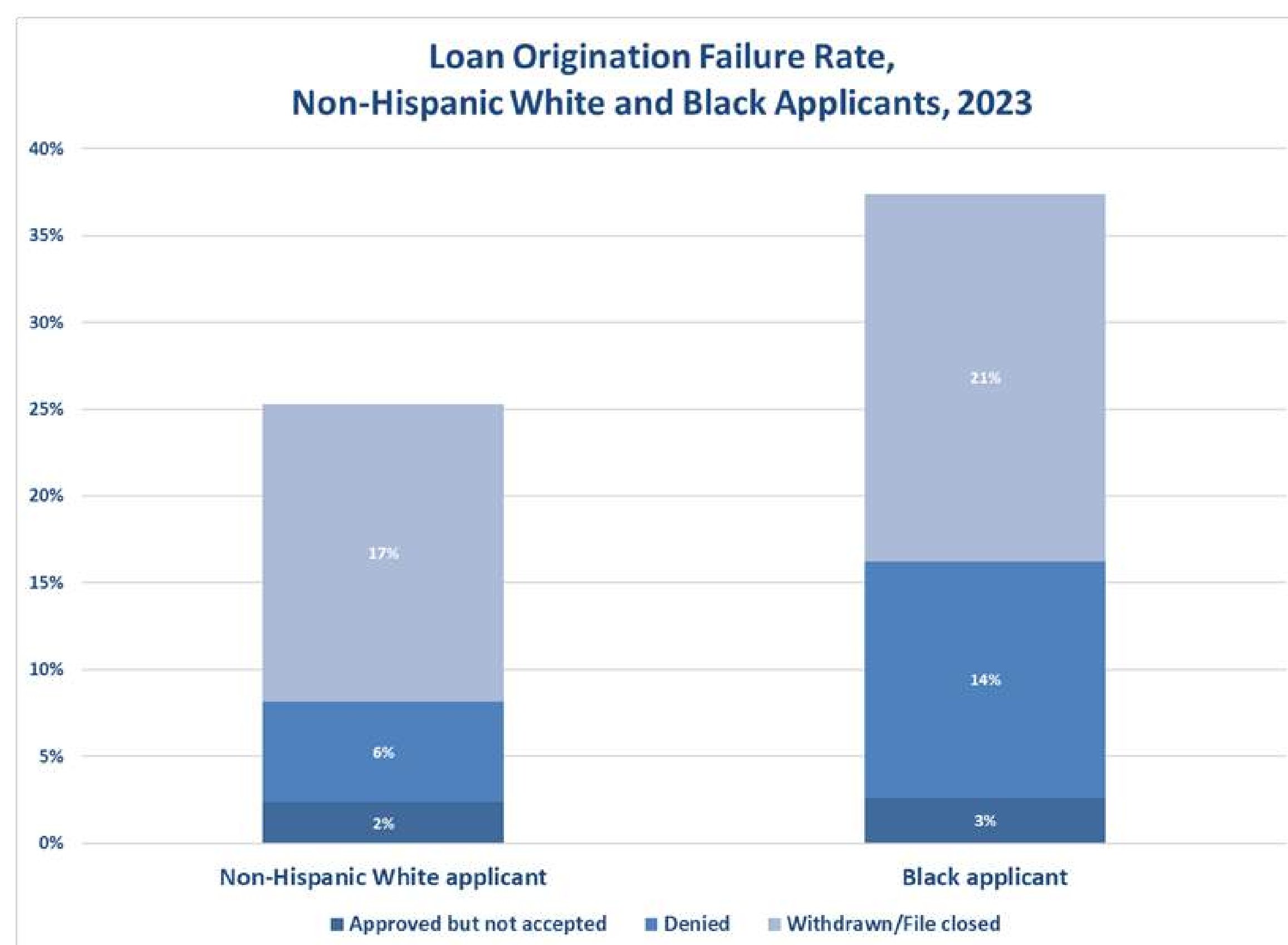
The percentage of denials linked to unfavorable debt-to-income ratios decreased as applicant incomes rose. However, denials because of credit history spiked among Black applicants with higher incomes, a trend not as pronounced among White applicants. For those earning more than 120 percent of the AMI, 28 percent of Black applicants' denials were due to credit history issues. Denials based on insufficient collateral also increased with income across both groups.

Moreover, in 2023, 6 percent of Black borrowers received high-cost loans, double the rate for White borrowers at 3 percent, as shown in Table 14. The prevalence of high-cost loans was higher in lower-income neighborhoods for both groups.

Loan Failure Rates by Race and Ethnicity

Loan origination failure rates, a comprehensive indicator of unsuccessful loan application outcomes,¹⁵ increased for Black applicants in 2023. Black applicants faced a 38 percent overall failure rate, compared to 25 percent for White applicants, with most of this discrepancy stemming from higher denial rates. Similar to the previous year, withdrawn applications and closed files due to incomplete information accounted for 21 percent of Black applications and 17 percent of White applications (Exhibit 15).

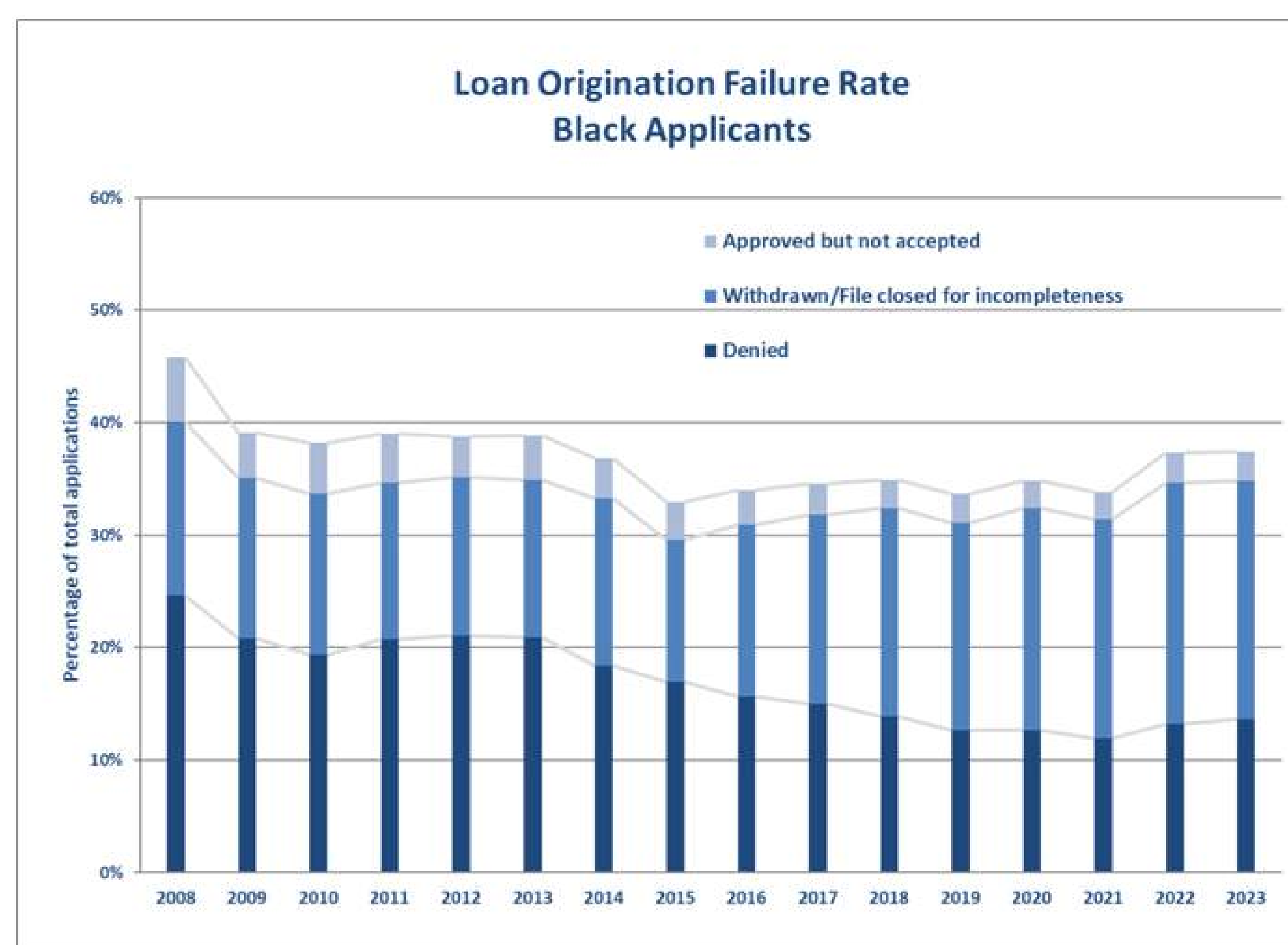
EXHIBIT 15



Source: Authors' calculations of 2023 HMDA data

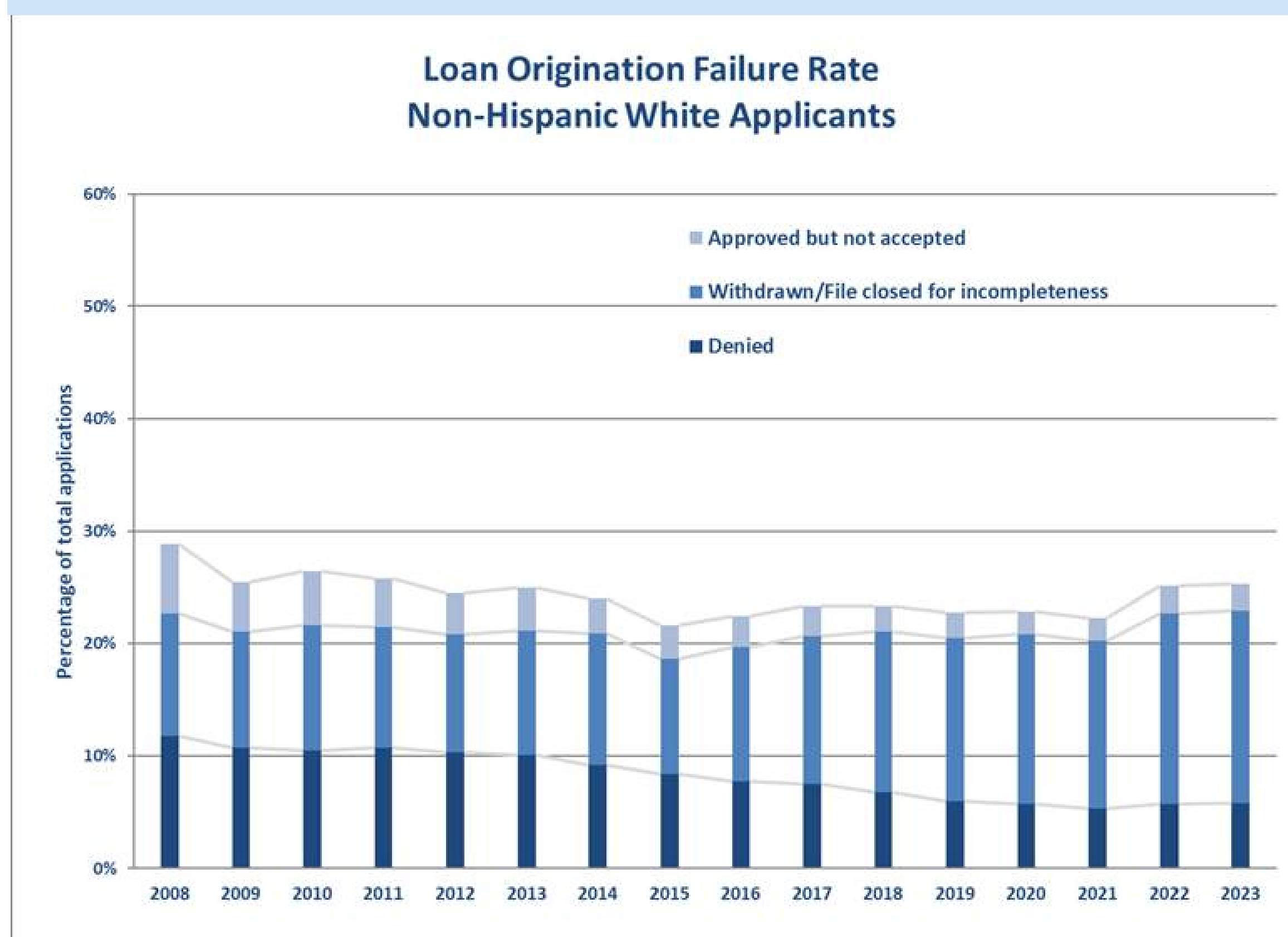
Lastly, Exhibits 16 and 17 chart the loan origination failure rates from 2008 to 2023, showing a persistent gap between Black and White applicants. Black applicants' failure rates remained above 30 percent, which was especially high during the 2008 foreclosure crisis.

EXHIBIT 16



Source: Authors' calculations of HMDA data (2008-2023)

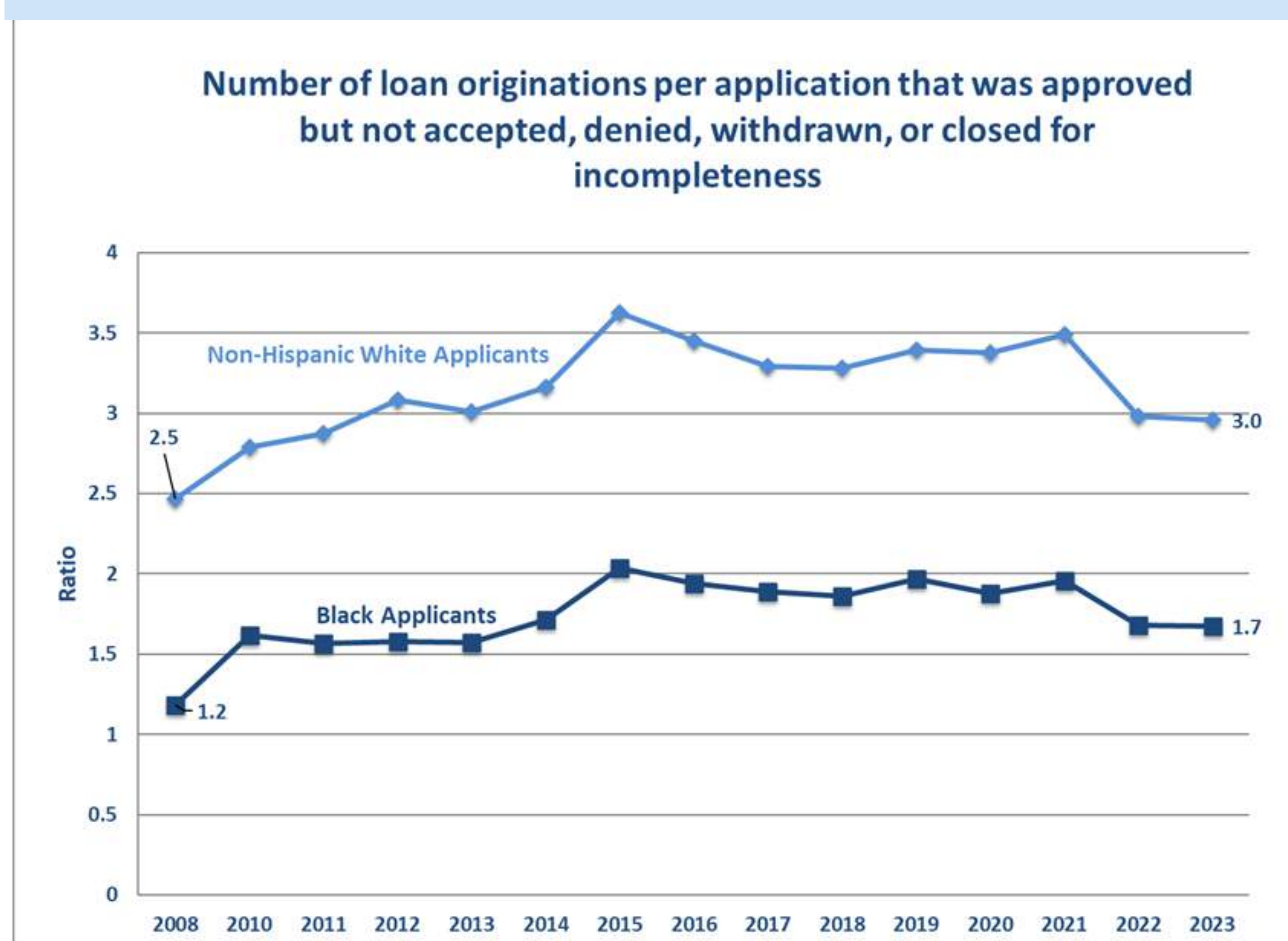
EXHIBIT 17



Source: Authors' calculations of HMDA data (2008-2023)

A comparative analysis of approved loans versus failed applications since 2008, as shown in Exhibit 18, underscores areas of change and stasis in loan acquisition success rates for Black applicants. The Exhibit shows a modest improvement from 1.2 approved loans per failed application in 2008 to 1.7 in 2023. However, White applicants consistently had a higher ratio of approved loans throughout this period.

EXHIBIT 18



Source: Authors' calculations of HMDA data (2008-2023)

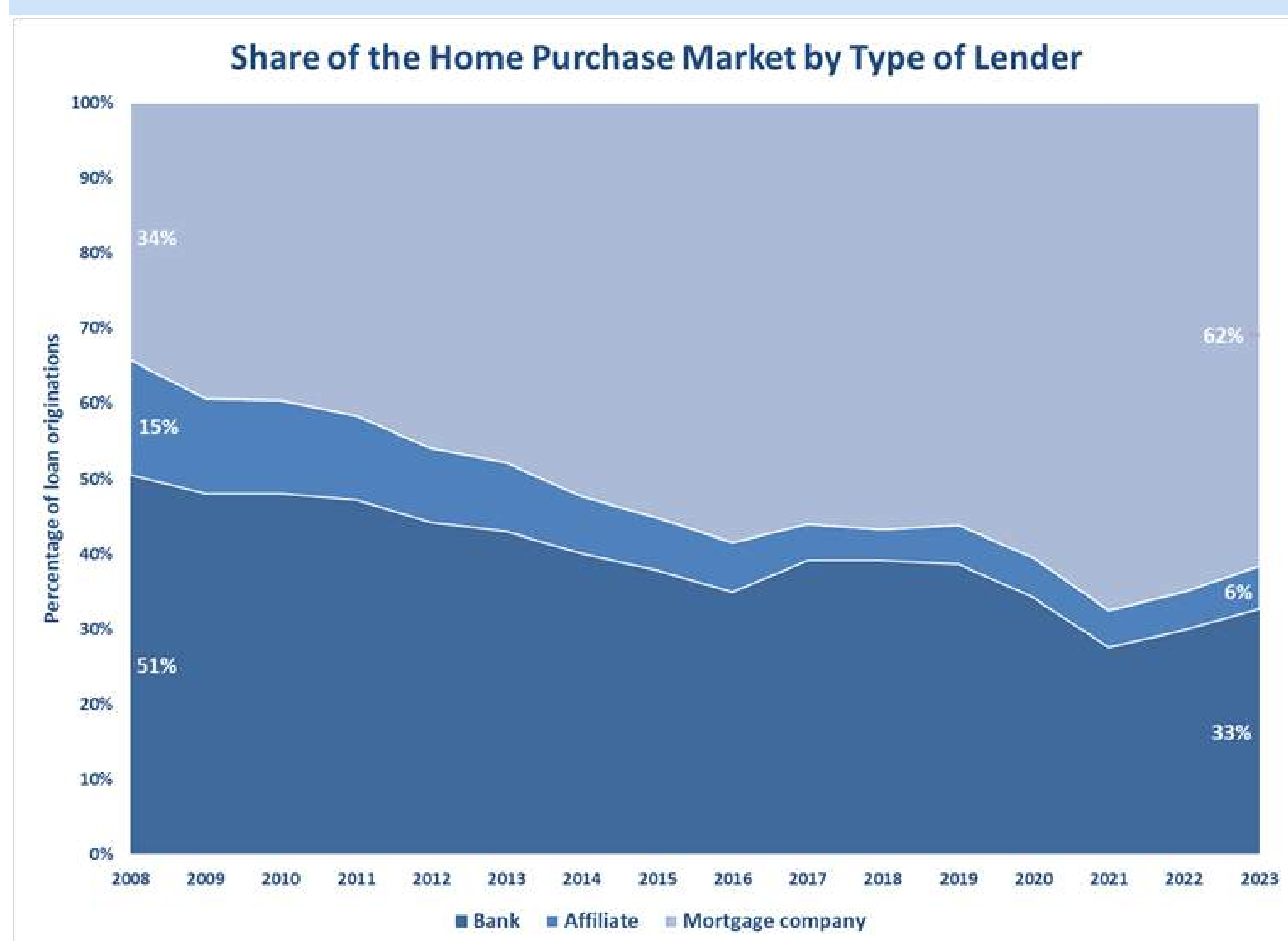
Loan and Lender Channels by Race and Ethnicity

Since the financial crisis of 2008 there's been a noticeable shift in mortgage lending from traditional banking institutions to independent mortgage companies, also known as nonbank lenders. These entities are not required to comply with the same level of regulatory oversight as banks, such as the Community Reinvestment Act (CRA), which mandates banks to meet the credit needs of lower-income and underserved communities (Exhibit 19).¹⁶

The absence of CRA obligations for nonbank lenders means they aren't held to any specific standards in serving the financial needs of disadvantaged neighborhoods. The introduction of proposed additional capital reserves for banks participating in mortgage lending might push even more lending activities towards these nonbank entities.

However, nonbank lenders typically possess more advanced digital prowess, facilitating a smoother and more effective loan application process including communicating with lenders. This proves particularly advantageous in areas where traditional banking services are limited. Non-bank lenders sometimes provide unique and innovative financing options that help borrowers purchase homes in competitive real estate markets. As last year's SHIBA report highlighted, among nonbank lenders are fintech companies that primarily offer their services online.¹⁹

EXHIBIT 19



Source: Authors' calculations of HMDA data (2008-2023)

Exhibit 19 reveals a significant decrease in bank-originated home loans that has been underway for more than ten years, with banks' participation in the mortgage market dropping from 51 percent in 2008 to just 28 percent by 2021. In contrast, the mortgage market share held by nonbanks rose from 34 percent to 67 percent during the same timeframe.²⁰

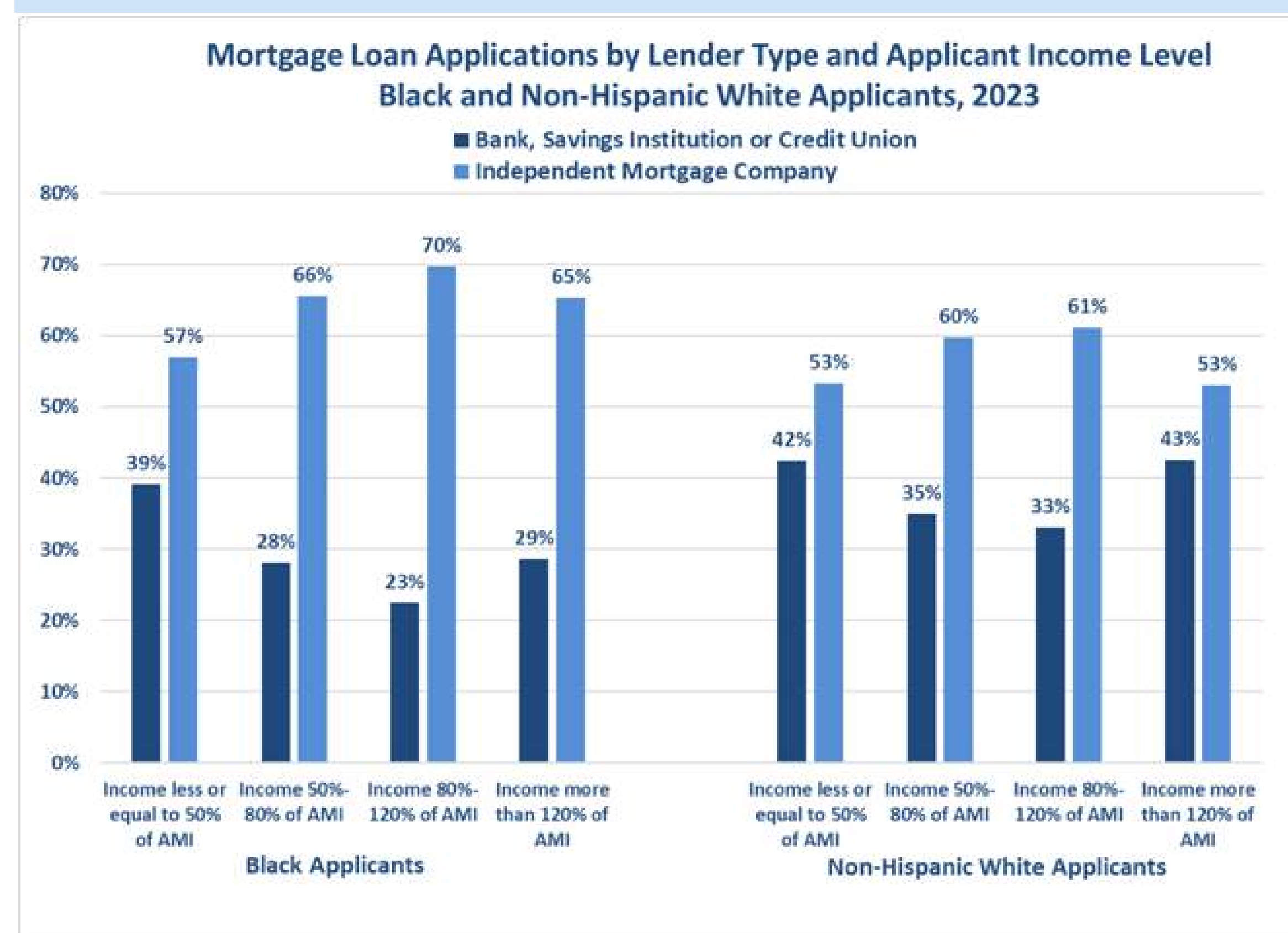
In 2023, the dominance of nonbank lenders in the mortgage market persisted, though they experienced a 5 percent drop in market share since 2021. Data from 2023 show that 66 percent of Black applicants and 57 percent of White applicants sought loans through independent mortgage companies, irrespective of their income levels (Exhibit 20).²¹ Meanwhile, banks continued to attract a larger proportion of White applicants, with 39 percent of Whites opting for banks compared to 28 percent for Black applicants.

From 2022 to 2023, there was a decline in the number of applications to and originations by independent mortgage firms for both racial categories across all income levels. Bank applications increased across different income brackets for both groups.

²² Exhibit 20 illustrates that for both Black and White loan applicants, a higher percentage of middle-income bracket borrowers applied at independent mortgage companies relative to borrowers from the lowest or highest income ranges.

Applications to banks, savings institutions, and credit unions from both racial groups were more common among the very low-income and very high-income bracket applicants. The preference for banks among the lowest-income applicants might be tied to banks' efforts to comply with CRA requirements, and improve their ratings for lending in low-income areas. The higher proportion of applications from very high-income applicants to banks could be due to banks' preference for less risky loan candidates since the housing market collapse and Great Recession.

EXHIBIT 20



Source: Authors' calculations of 2023 HMDA data

Since the foreclosure crisis, nonbank lenders have emerged as principal sellers of mortgages bought by Fannie Mae and Freddie Mac. As discussed further below, both entities have recently offered more lenient underwriting standards.

²³ These independent lenders have also remained significant originators of Ginnie Mae-insured loans.

²⁴ Programs like FHA and the VA offer guarantees on mortgages that reduce the financial risks for nonbanks in the event of a borrower defaulting.²⁵

Exhibit 21 indicates that Black applicants most frequently apply for FHA-insured loans at independent mortgage companies (32 percent), while most White applicants seek and obtain conventional loans at these firms (37 percent).

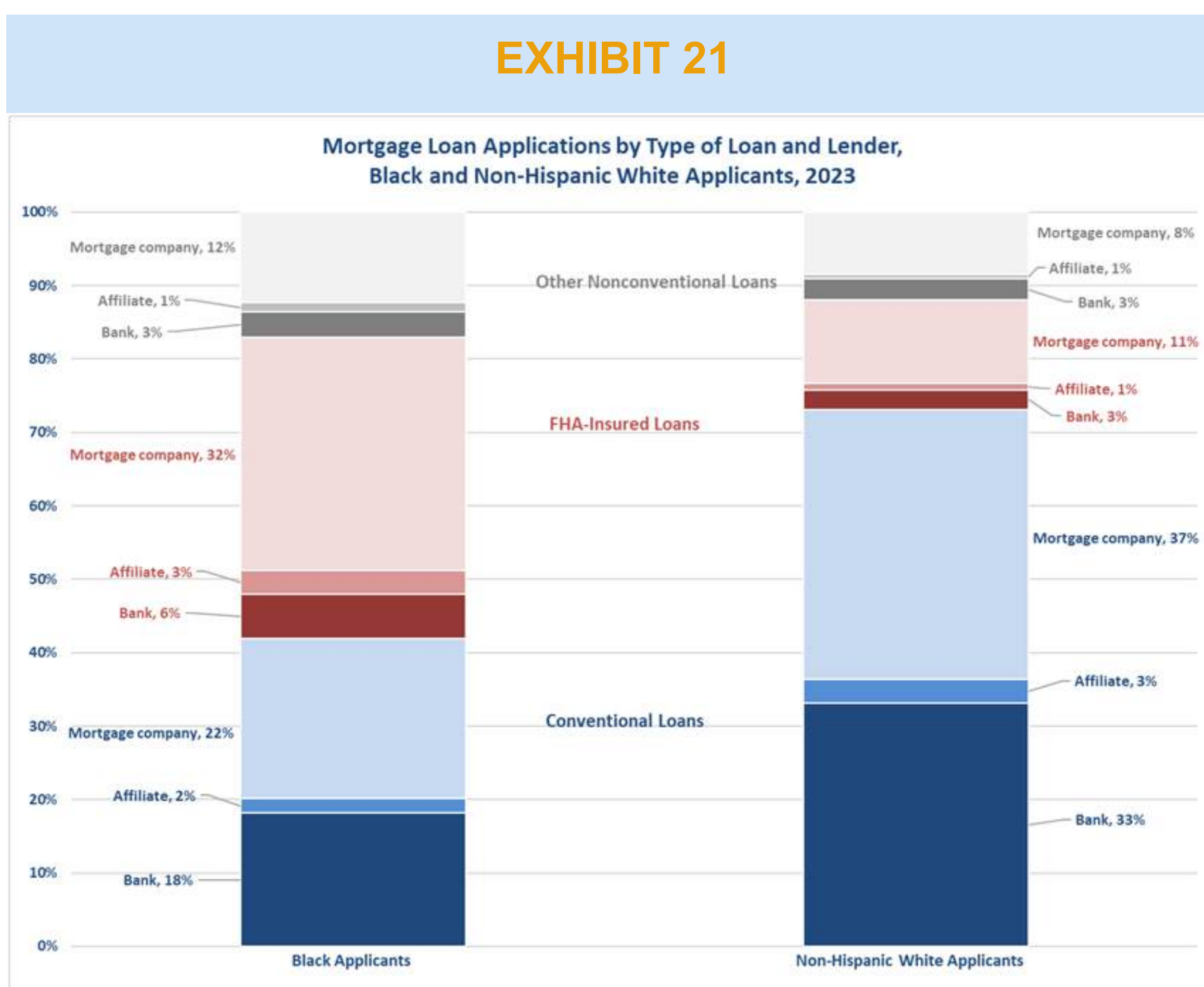
Loan origination rates are notably higher at independent mortgage companies than at banks for all racial categories. However, a persistent discrepancy in origination rates between Black and White applicants exists across all institutions (Table 8). In 2023, White applicants had a noticeably higher origination rate (79 percent at independent mortgage companies and 72 percent at banks) than Black applicants (70 percent and 57 percent).

Denial rates for applicants with incomes below 120 percent of their local AMI increased at banks for both racial groups since 2022, particularly for Black applicants. The denial rate also increased at independent mortgage companies for Black applicants with incomes below 80 percent of the local AMI and White applicants with incomes below 50 percent of the local AMI. The rate of denied applications for both groups across all other income levels decreased or remained largely unchanged from 2022.

In 2023, independent mortgage companies exhibited lower denial rates compared to banks. The disparity in denial rates was also reflective of the differences in loan origination rates, with Black applicants experiencing significantly higher denial rates than their White counterparts across the lender categories. Banks denied Black applicants at a rate of 23 percent, whereas White applicants faced a 9 percent denial rate (Table 8). The discrepancy was slightly less pronounced at independent mortgage firms, with denial rates standing at 15 percent for Black applicants and 6 percent for White applicants.

This disparity in denial rates remained consistent across different income levels and lender types. For instance, high-income Black applicants at banks faced a 19 percent denial rate, in stark contrast to the 7 percent rate among White applicants—a difference of 12 percentage points. The gap among very low-income applicants was 15 percentage points (38 percent for Black applicants versus 23 percent for White applicants).

These disparities were also noted among various lender types, showing that Black applicants with lower incomes face greater difficulties in obtaining mortgage credit approval compared to their White counterparts with similar economic status, more

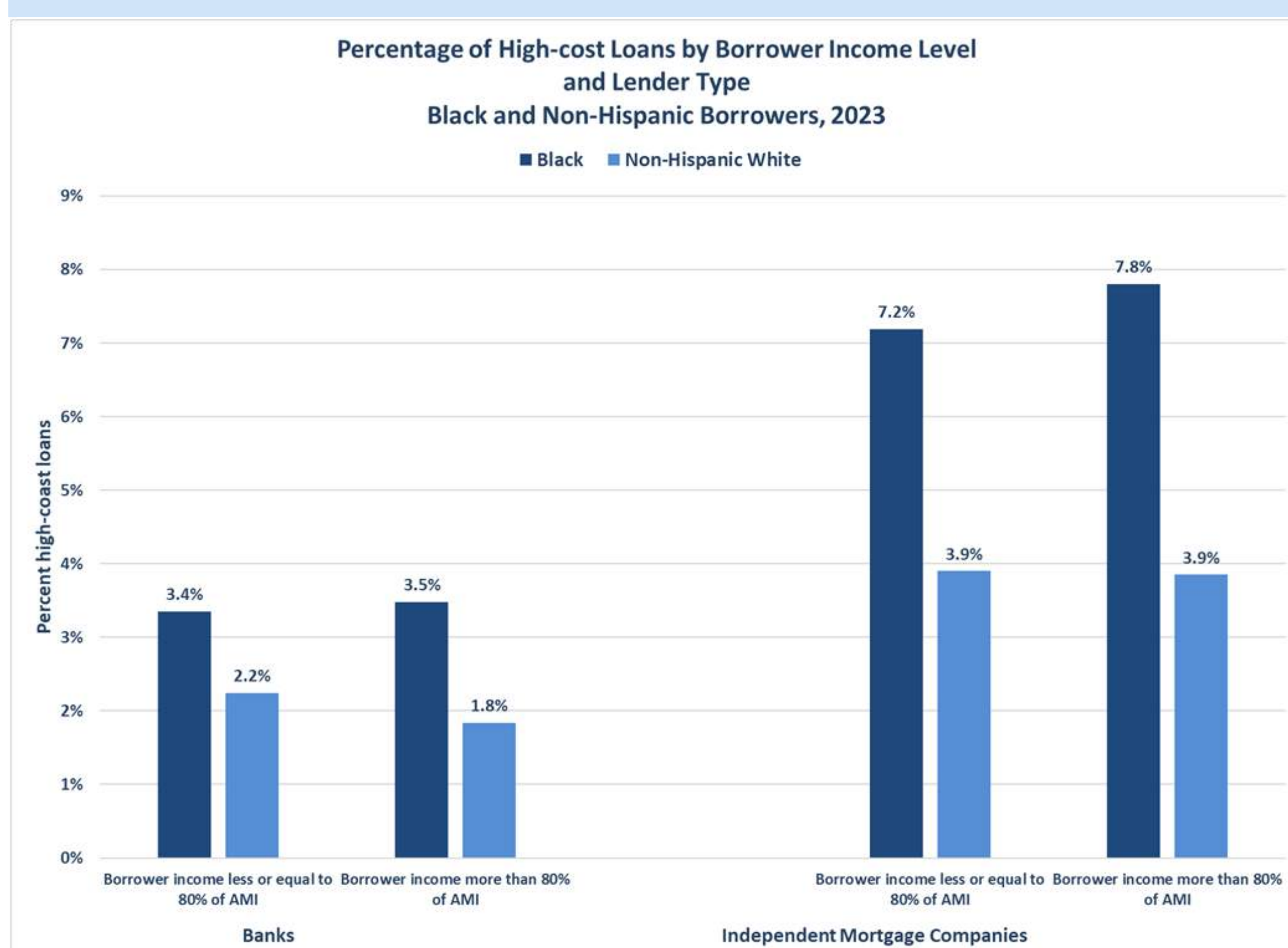


Source: Authors' calculations of 2023 HMDA data

so than Black applicants with higher incomes when compared to White applicants in the same income bracket.

Nonbank lenders, known for their more flexible underwriting compared to other lenders, tended to charge higher rates and fees than banks. This resulted in a higher proportion of high-cost loans among nonbank lenders, particularly affecting Black borrowers (as indicated in Exhibit 22). The share of high-cost loans across all types of lenders, however, significantly decreased since 2022 both for Black and White borrowers.²⁶ In a notable shift from 2022, there was a higher percentage of high-cost loans extended to Black borrowers earning more than 80 percent of the AMI compared to those offered to lower-income Black borrowers. This trend was observed both in banks and independent mortgage companies.

EXHIBIT 22



Source: Authors' calculations of 2023 HMDA data

Loan and Lender Channels by Race and Ethnicity

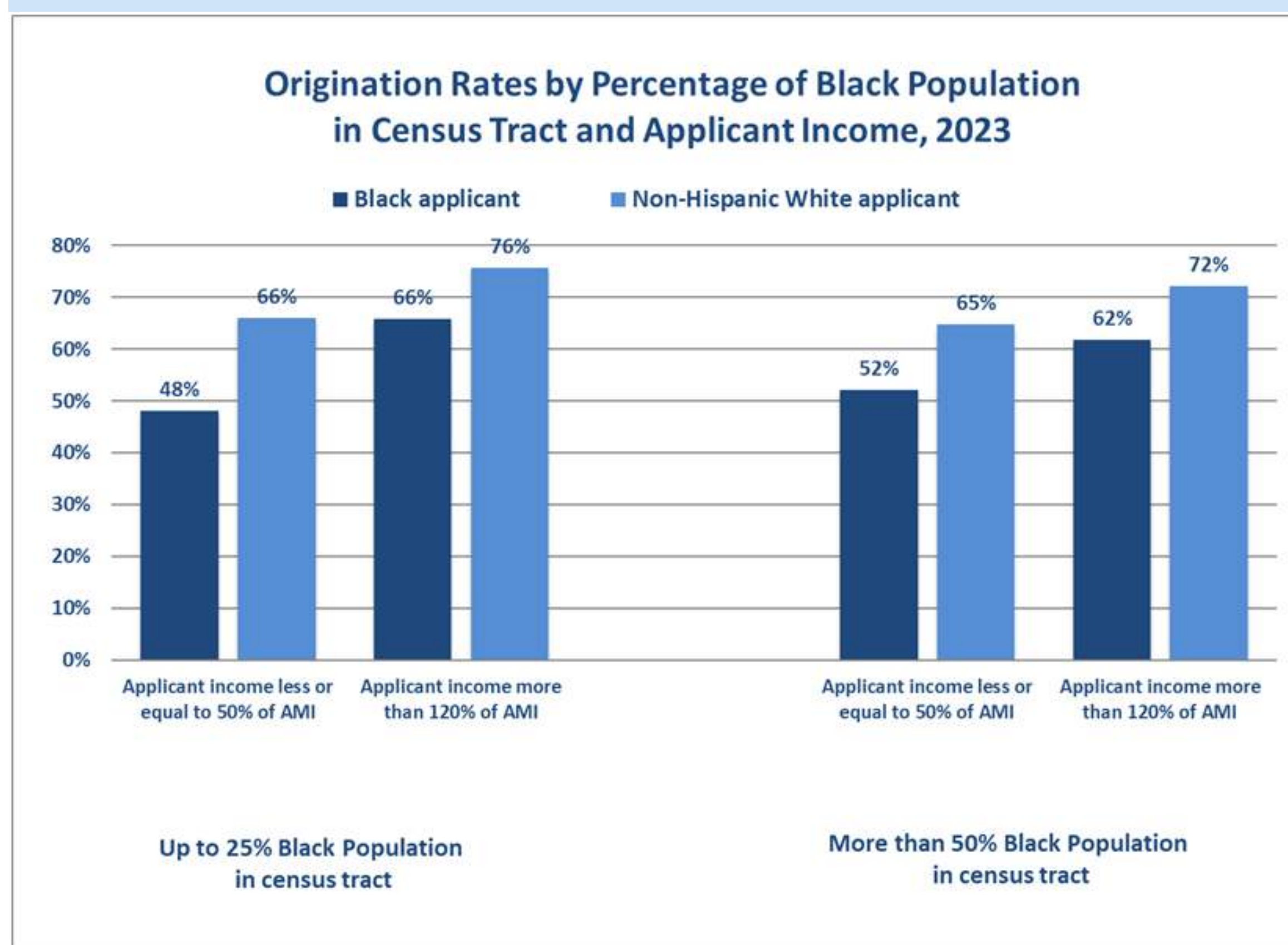
In 2023, there was an increase in the share of loans to Black borrowers for properties in low- and moderate-income areas. From 2022 to 2023, that share rose from 32 percent to 34 percent. In contrast, only 16 percent of loans to White applicants were for homes in low- and moderate-income neighborhoods.

Moreover, the proportion of Black applicants securing loans for homes in predominantly minority neighborhoods rose from 54 percent in 2022 to 55 percent in 2023. Meanwhile, the share of loans to White borrowers for properties in these neighborhoods remained unchanged since 2022 (12 percent). It is also noted that Black applicants in majority-minority neighborhoods face denial rates more than twice as high (18 percent) as White applicants in the majority-minority neighborhoods (8 percent), with variations in denial rates observed across different income levels.

Data presented in Exhibit 23 reveal that loan approval rates for Black and White applicants vary depending on the racial makeup of the neighborhoods and the applicants' income levels. On average, loans were more frequently approved in areas with a smaller Black population for Black and White applicants. Low-income Black applicants were the only group to have had higher approval rates in majority-minority neighborhoods. Loan approval rates for White applicants outpace those for Black applicants across all income levels and neighborhood racial compositions.

Interestingly, high-income Black applicants had increased approval rates in neighborhoods with fewer Black residents, whereas low-income Black applicants saw higher approval rates in predominantly Black neighborhoods.

EXHIBIT 23



Source: Authors' calculations of 2023 HMDA data

Variations in the issuance of loans remain consistent across both conventional and FHA-insured loans among all types of lenders, for borrowers of diverse income brackets, and in neighborhoods with varying racial demographics, with a few exceptions noted in Tables 9 and 10.

In 2023, 93 percent of conventional loans and 89 percent of FHA-insured loans issued to White applicants were designated for properties in census tracts where Black individuals constituted no more than 25 percent of the population. In contrast, the distribution of conventional and FHA-insured loans to Black applicants was more varied across areas with different racial demographics.

According to Table 5, in 2023, 65 percent of loan applications from Black individuals came from the South, a percentage considerably higher than that of White applicants, which stood at 42 percent. Meanwhile, 27 percent of White applicants' forms were submitted in the Midwest, with 17 percent in the West. Only a small 7 percent of Black applicants' applications were submitted in the West. Overall, the regional distribution of loan originations for both groups mirrors the application submission percentages.

Cities with Largest Black Populations and High Levels of Segregation

This section focuses on the performance of the mortgage market within the ten largest U.S. cities by Black population size. As shown in Exhibit 24, the range of the Black population within these cities extends from about 307,000 in Dallas to around 2 million in New York.

EXHIBIT 24

Ten Cities with the Largest Black Populations (2022)

City	Black Population	Percent of Total Population	Dissimilarity Index
New York city, New York	1,992,200	23%	0.77
Chicago city, Illinois	784,078	29%	0.81
Philadelphia city, Pennsylvania	638,907	40%	0.71
Houston city, Texas	514,692	22%	0.67
Detroit city, Michigan	495,533	78%	0.59
Memphis city, Tennessee	405,463	64%	0.67
Baltimore city, Maryland	358,028	61%	0.66
Los Angeles city, California	332,173	9%	0.63
Charlotte city, NC	308,131	35%	0.55
Dallas city, TX	307,086	24%	0.65

Source: Authors' calculations of data from the U.S. Census Bureau. American Community Survey, 1-year dataset, 2022. Retrieved from Manson, Steven, et al. "IPUMS National Historical Geographic Information System: Version 18.0 [dataset]." Minneapolis, MN: IPUMS 2023, <http://doi.org/10.18128/D050.V18.0>. Accessed September 2024.

In major cities such as New York, Los Angeles, Chicago, Houston, and Dallas – where in 1990, the Black population accounted for less than 40 percent of the overall population – there has been a significant decrease in the proportion of Black residents over time (Exhibit 25). Particularly in Los Angeles, the Black population has dwindled from 14 percent in 1990 to just 9 percent of the city's total population in 2022.

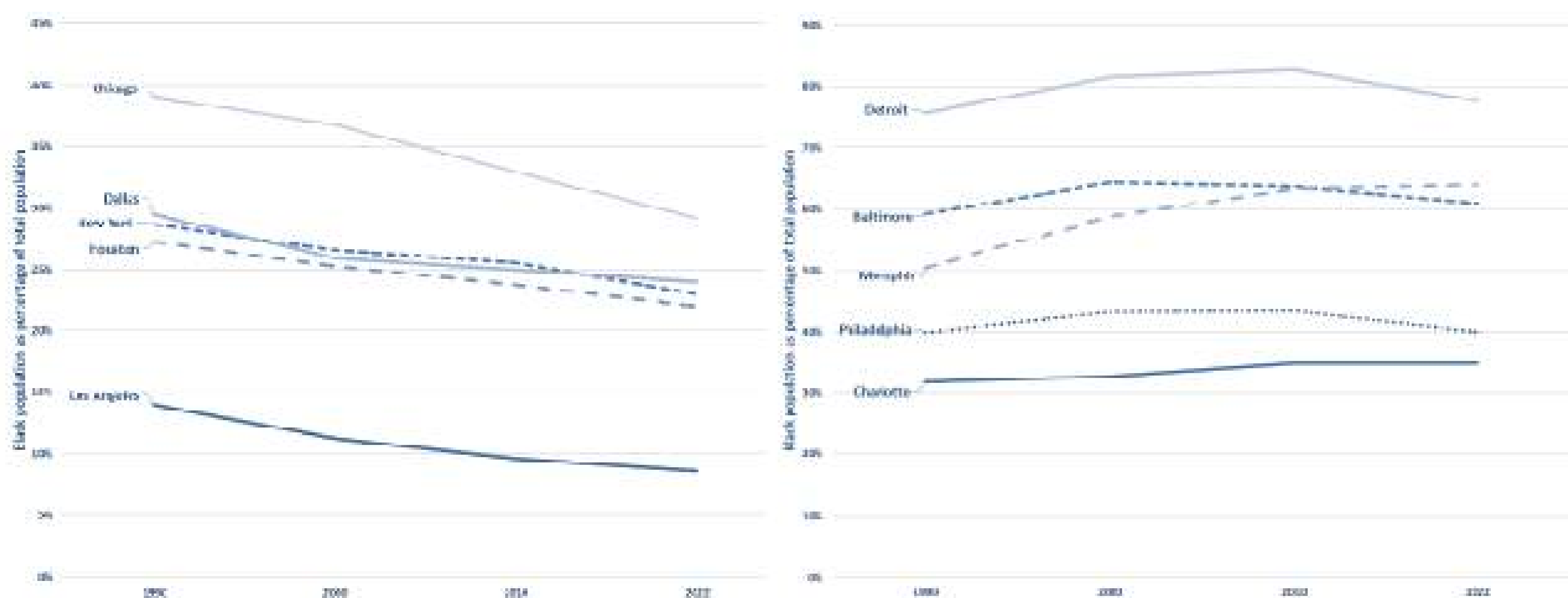
In the other selected cities, there was an increase in the share of the Black population in 2022 compared to 1990. In Memphis, in particular, the Black population rose to 64 percent in 2022, a dramatic increase from 51 percent in 1990.

The dissimilarity index is a widely used metric for determining residential segregation levels. It gauges how much Black individuals would need to relocate within different census tracts to achieve a uniform geographic spread across the city in comparison to White individuals. A dissimilarity index above 60 percent is typically considered to be high.

As shown on Exhibit 24, every city listed, except for Detroit and Charlotte, exhibit high levels of segregation between Black and White residents, with indices ranging from .63 in Los Angeles to .81 in Chicago.

EXHIBIT 25

Black share of the total population since 1990



Source: Authors' calculations of data U.S. Census Bureau. Decennial censuses 1990, 2000, 2010, and 2020, and 2022 American Community Survey. Retrieved from Manson, Steven, et al. "IPUMS National Historical Geographic Information System: Version 18.0 [dataset]." Minneapolis, MN: IPUMS 2023, <http://doi.org/10.18128/D050.V18.0>. Accessed September 2024.

As highlighted in the 2022 and 2023 State of Housing in Black America reports, there has been a trend of Black households moving away from highly expensive and gentrifying cities such as D.C. and New York, towards more economically accessible locations, notably in the South. Cities like Baltimore, Memphis, and Detroit continue to have a predominantly Black population.

In the ten cities examined, the proportion of loan applications submitted by and loans issued to Black individuals falls significantly short of their shares of the populations in those cities. This suggests that a higher concentration of Black residents in these areas does not translate to better access to mortgage financing for this group.

For instance, in Detroit, Blacks make up 78 percent of the city's population, but only 53 percent of mortgage applicants are Black.

In New York, Blacks account for 23 percent of the population, yet they represent a mere 9 percent of all loan applicants (Exhibits 24 and 26). Detroit and Baltimore are recognized as among the top 10 most affordable cities for Black homeowners,²⁷ and have the largest shares of loan origination to Black applicants, at 53 percent and 36 percent, respectively.

Moreover, the ten cities exhibit notable differences in the kinds of loans pursued by Black applicants. Although the overall distribution of applications for, and originations of, FHA-insured and conventional loans by Black applicants tends to reflect national trends, variations are evident in certain locations.

For example, in cities such as Baltimore, Chicago, Detroit, and Philadelphia, most applications were for FHA-insured loans. Conversely, in the remaining cities, Black borrowers predominantly applied for conventional loans.

Yet, in these cities, the proportion of conventional loans granted to Black applicants was a fraction of all conventional loan originations. For instance, in Los Angeles, where 71 percent of Black applicant submissions were for conventional loans, loans to Blacks constituted only 3 percent of all conventional loan originations (Exhibit 26). Stated otherwise, the share of conventional loans to Blacks in LA was only one-third the share of the Black population in that city, 3 percent versus 9 percent, respectively.

EXHIBIT 26

Selected Characteristics of Loan Applications from Black Applicants in the 10 U.S. Cities with the Largest Black Populations, 2023

City	Loan Applications from Black Applicants				Loan Originations to Black Applicants			
	Total	Share of all applications	Percent applications for conventional loans	Percent applications for FHA-insured loans	Total	Share of all originations	Share of all conventional loans	Share of all FHA-insured loans
Baltimore	2,867	39%	37%	54%	1,798	36%	22%	62%
Charlotte	2,223	17%	57%	35%	1,452	15%	11%	36%
Chicago	4,535	16%	46%	49%	2,454	13%	8%	38%
Dallas	1,286	10%	54%	37%	722	9%	6%	19%
Detroit	2,456	53%	45%	50%	1,404	51%	42%	67%
Houston	2,890	13%	53%	36%	1,677	12%	8%	23%
Los Angeles	811	5%	71%	24%	431	4%	3%	7%
Memphis	1,835	38%	42%	46%	1,097	34%	23%	56%
New York	3,051	9%	57%	41%	1,804	8%	5%	45%
Philadelphia	3,045	22%	43%	52%	1,938	20%	13%	41%

Source: Authors' calculations of 2023 HMDA data

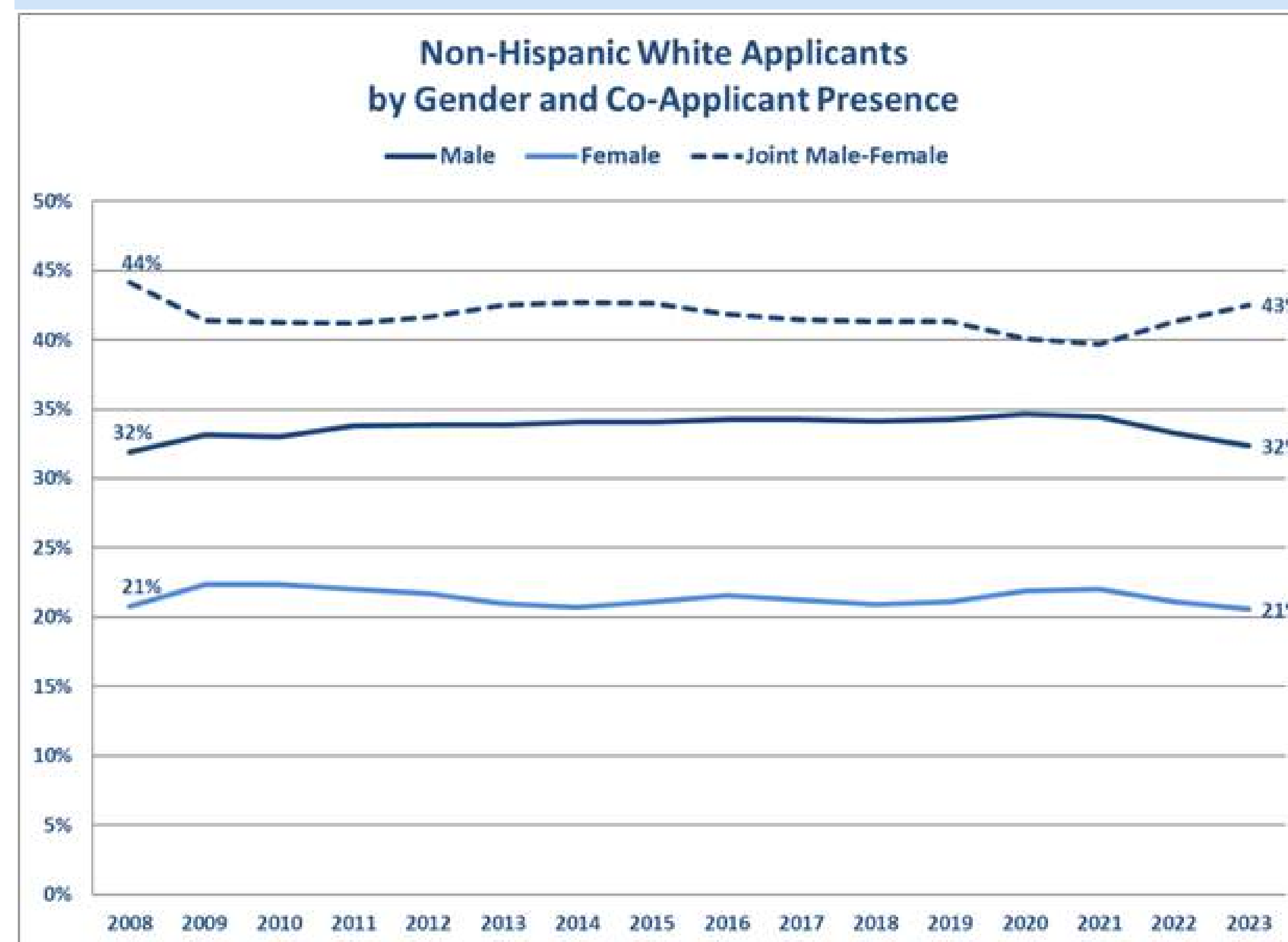
Mortgage Lending to Black Female Applicants

In 2023, the number of mortgage loan applications submitted by Black women continued to decrease compared to 2021. Until 2021, there had been a steady rise in the number of applications from Black women since the Great Recession. In 2022, there was a noteworthy shift, and the number of applications from this group began to decline. In 2023, applications submitted by Black women decline by 24 percent from the year before (Table 15). Additionally, there continues to be a distinctive gender breakdown among Black loan applicants when compared to White applicants (Exhibits 27 and 28).

In 2023, women still made up the largest portion of Black mortgage loan applicants. Specifically, 38 percent of the Black applicants were women applying without a co-applicant, 33 percent were men applying on their own without a co-applicant, and the remaining 23 percent were joint applications from male and female applicants.

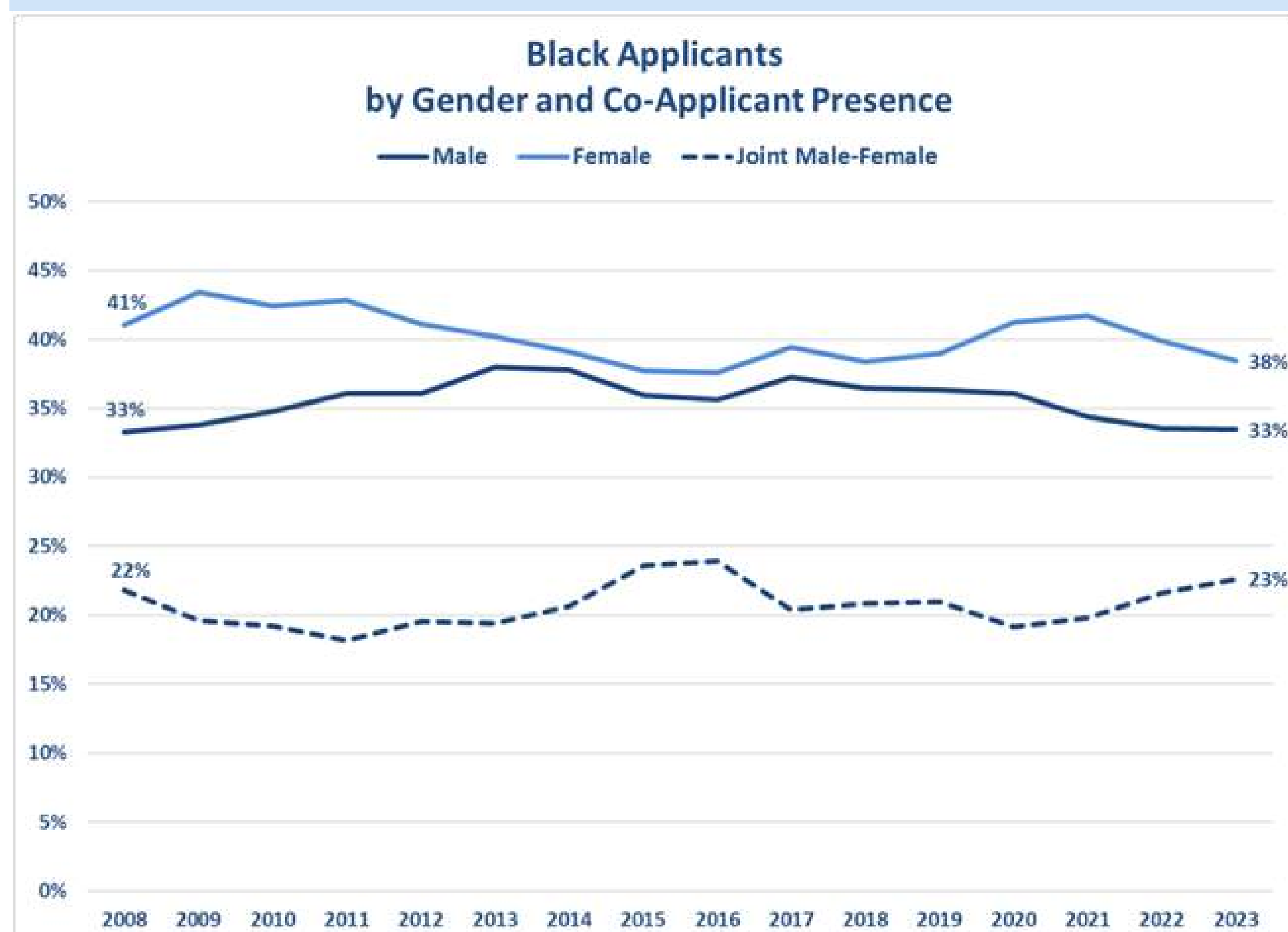
As in past years, women made up the smallest share of the total White applicant pool at 21 percent in 2023. The biggest segment within the White applicant demographic was male and female applicants submitting applications jointly (43 percent), with male applicants coming in next at 32 percent.

EXHIBIT 28



Source: Authors' calculations of HMDA data (2008-2023)

EXHIBIT 27



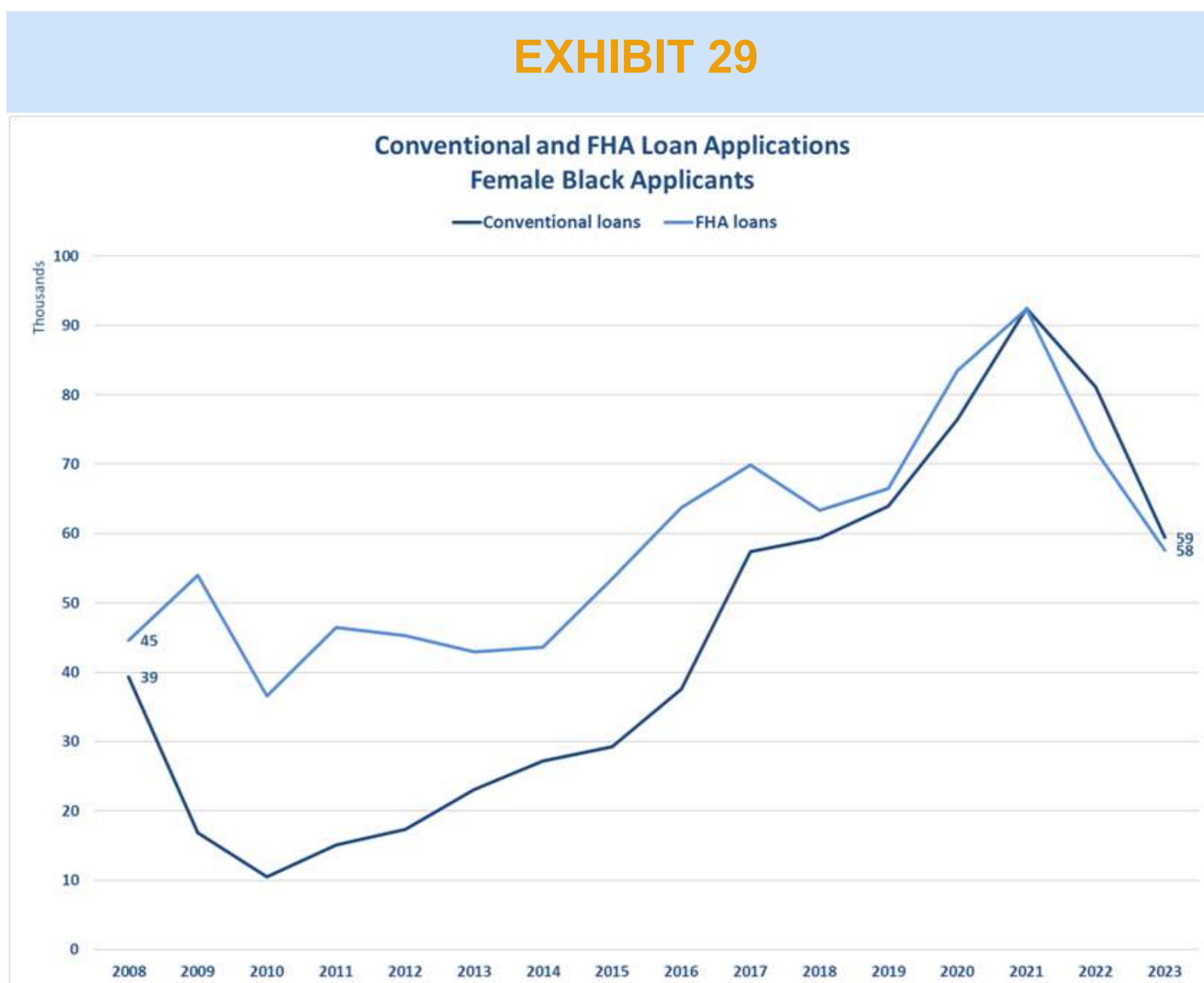
Source: Authors' calculations of HMDA data (2008-2023)

In 2023, there was a noticeable decrease in the number of loan applications submitted by Black females applying independently for both conventional FHA-insured mortgages. FHA loan applications dropped by 20 percent, while conventional loan applications declined by 27 percent compared to the previous year. The number of applications for conventional loans by Black female applicants barely exceeded those for FHA-insured loans in 2023 (Exhibit 29).

By 2023, nearly half (46 percent) of the loan applications from Black females were for conventional loans, a significant increase from 21 percent in 2010, as shown in Table 16.

In comparison, White female applicants saw their rate of applications for conventional loans jump from 48 percent in 2010 to 76 percent in 2023. Furthermore, in 2023, FHA-insured loans accounted for 44 percent of the applications by Black females, a stark contrast to the 17 percent seen among White female applicants (Table 17).

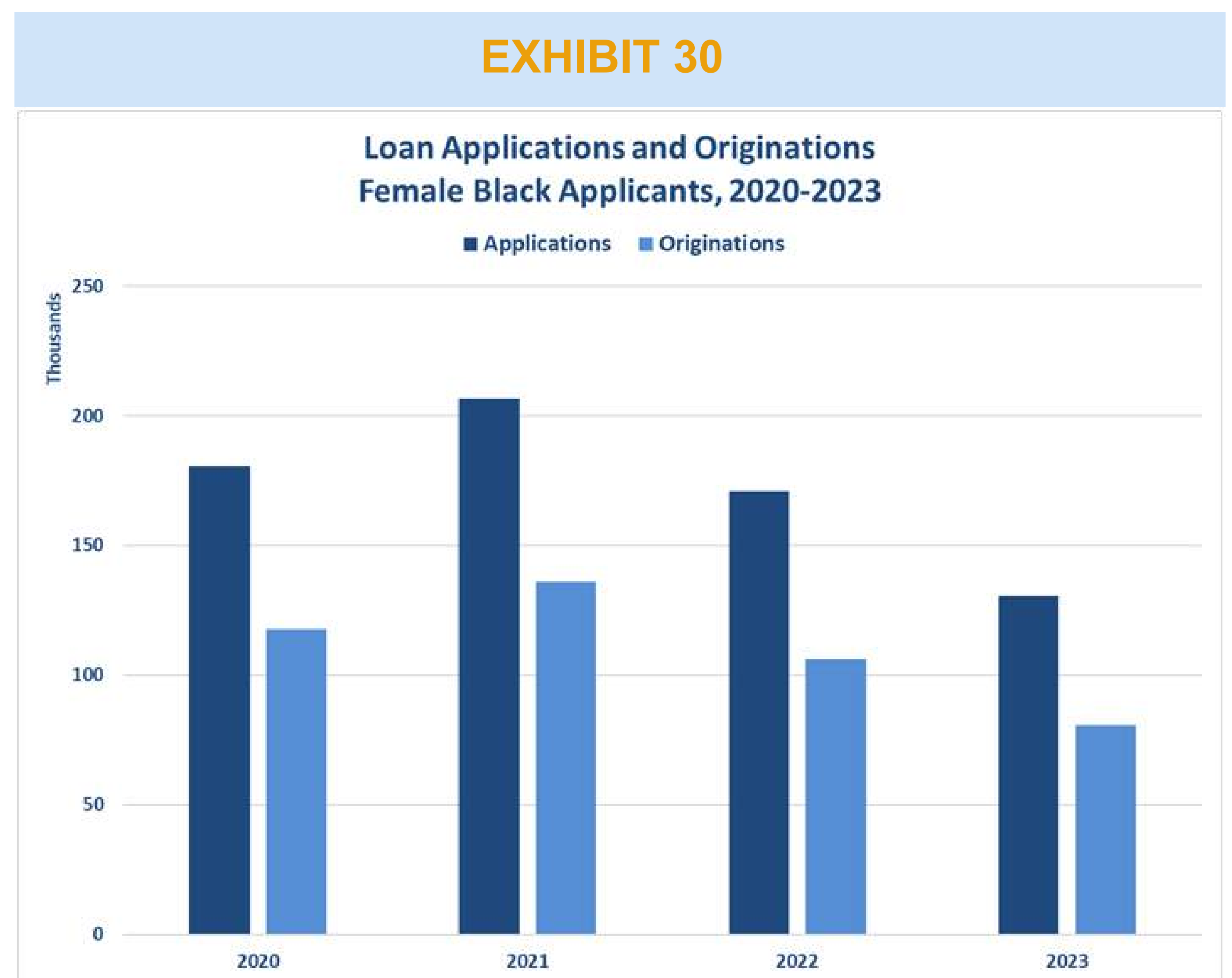
groups, male and female applicants applying jointly generally received loan approvals at higher rates than those applying on their own.



Source: Authors' calculations of HMDA data (2008-2023)

Loan applications from Black female borrowers had a lower success rate than those from White female borrowers. In 2023, the number of loans to Black women dropped by 24 percent from the previous year and, like in 2022; Black women experienced a 62 percent origination rate (Exhibit 30). On the other hand, White female borrowers experienced a 74 percent approval rate even though there was a decrease in the number of applications from this group, as indicated in Table 15. Despite some sharp differences in 2023 originations data between Black and White females applying independently, the disparity in approval rates between Black and White female loan applicants has decreased since 2008.

²⁸Furthermore, both Black and White demographic



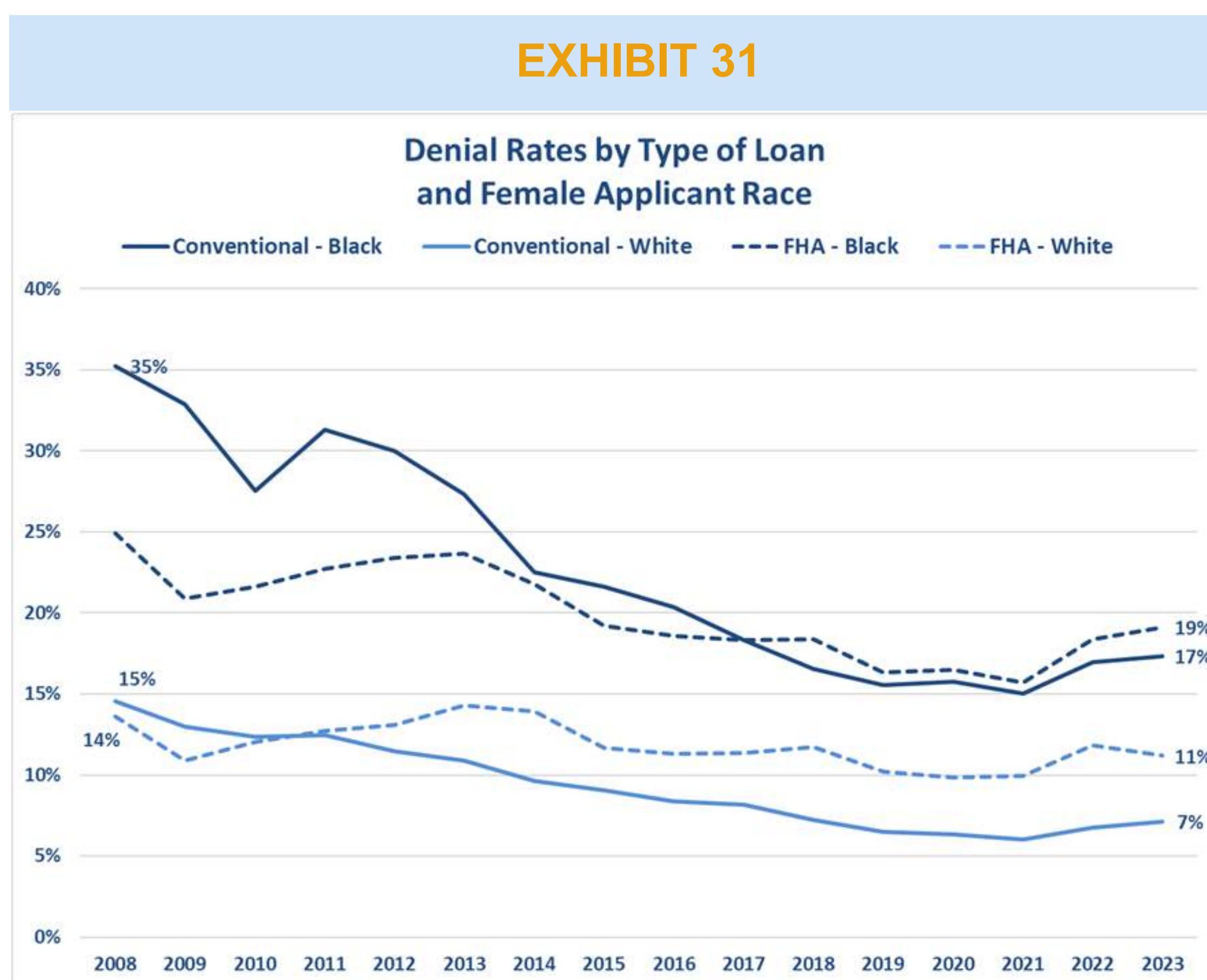
Source: Authors' calculations of HMDA data (2008-2023)

Since the housing market collapse of over a decade ago, there has been a notable decrease in the rate of denials for loan applications submitted by both Black and White women. Despite this improvement, a significant disparity remains. In 2023, the rejection rate for Black women who applied for loans was 18 percent, more than double the 8 percent denial rate for their White female counterparts.

Denial rates for loans insured by the Federal Housing Administration (FHA) have consistently been higher than those for conventional loans for White women, particularly following the foreclosure crisis. However, a different pattern was seen among Black female applicants. Denial rates for this group had been higher for conventional loans than for FHA-insured loans. This trend, however, reversed in 2017.

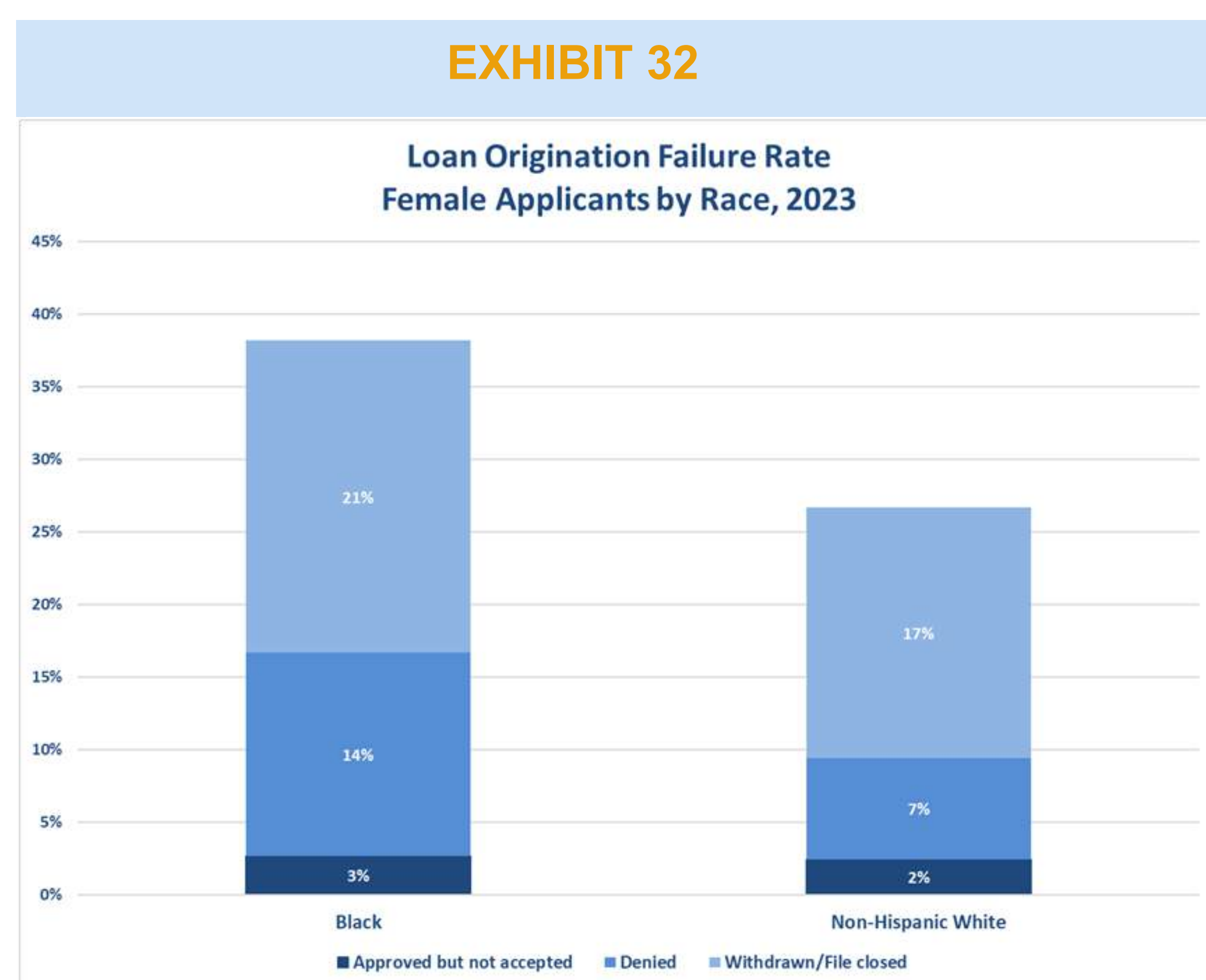
From that point on, Black women have experienced higher denial rates for FHA loans compared to conventional loans. In 2023, the denial rates for both FHA-insured and conventional loans submitted by Black women were 19 percent and 17 percent, respectively (Exhibit 31).

Over the years, the rate at which Black female applicants successfully secure loans has improved. Their loan failure rate was 46 percent in 2008 and fell to 38 percent by 2023. However, it still surpassed the failure rate for White female applicants, which stood at 26 percent. Additionally, in 2023, about 21 percent of loan applications from Black female applicants were either withdrawn or marked as closed due to incompleteness, a figure higher than the 17 percent recorded for applications from White applicants (Exhibit 32).



Source: Authors' calculations of HMDA data (2008-2023)

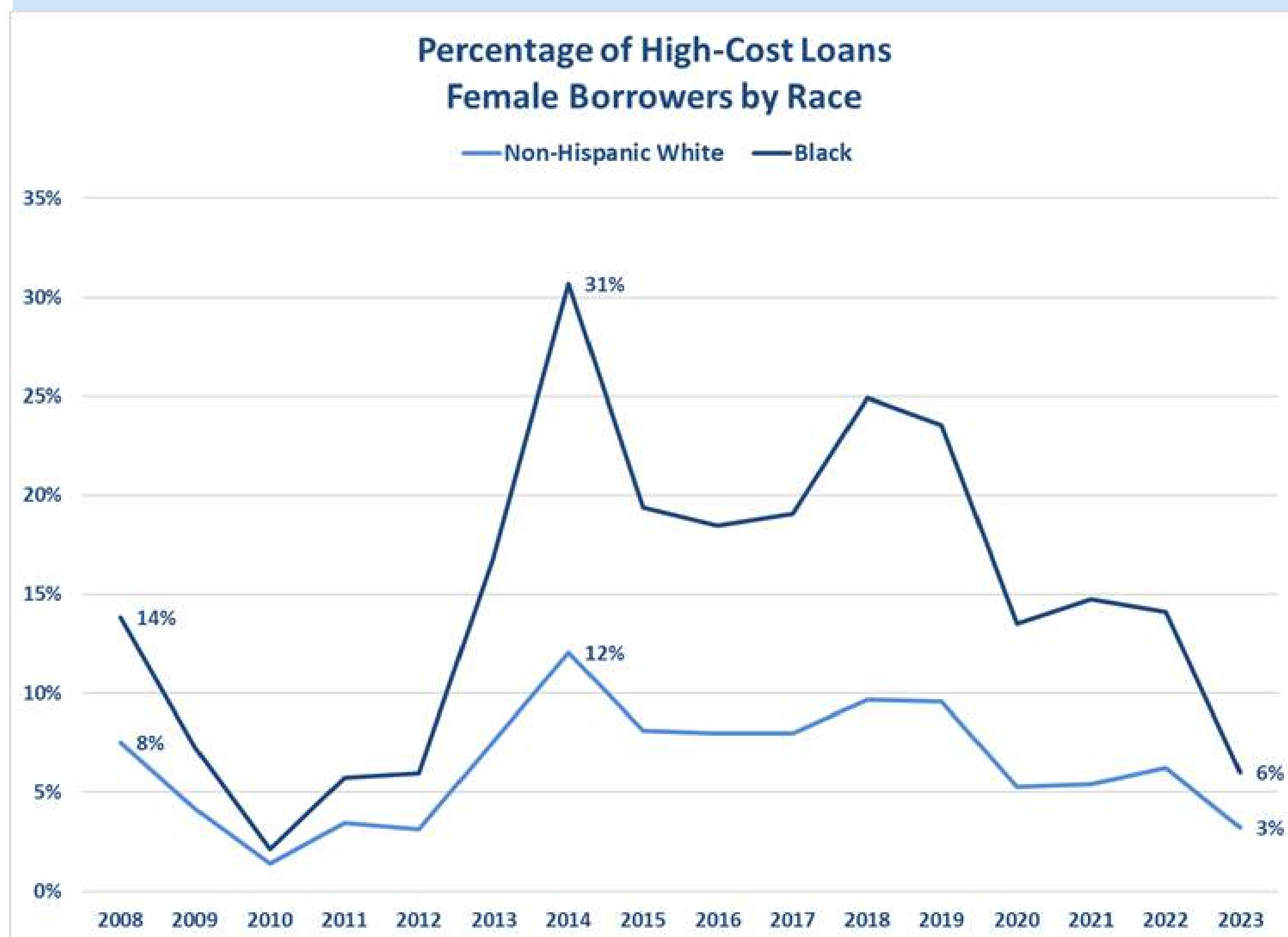
There are differences in the reasons for denial between Black and White female applicants. The primary reason cited for loan rejection among female applicants is their debt-to-income ratio. Forty-three percent of the denials for Black applicants are attributed to the debt-to-income ratio, while this reason accounts for 38 percent of denials among White applicants. Regarding credit history, it is the leading cause for denial in 17 percent of the cases for Black applicants, as opposed to 14 percent for White applicants. Collateral is more likely to be cited as a reason for loan denial for White applicants (18 percent) compared to Black applicants (12 percent).



Source: Authors' calculations of 2023 HMDA data

In 2023, Black female borrowers were still more likely to be given high-cost loans compared to White female borrowers. While the percentage of these high-cost loans for Black females has decreased to 6 percent from 31 percent since 2014. However, Black female borrowers continue to have high-cost loans at double the rate for White female borrowers, at 3 percent (Table 19 and Exhibit 33).

EXHIBIT 33



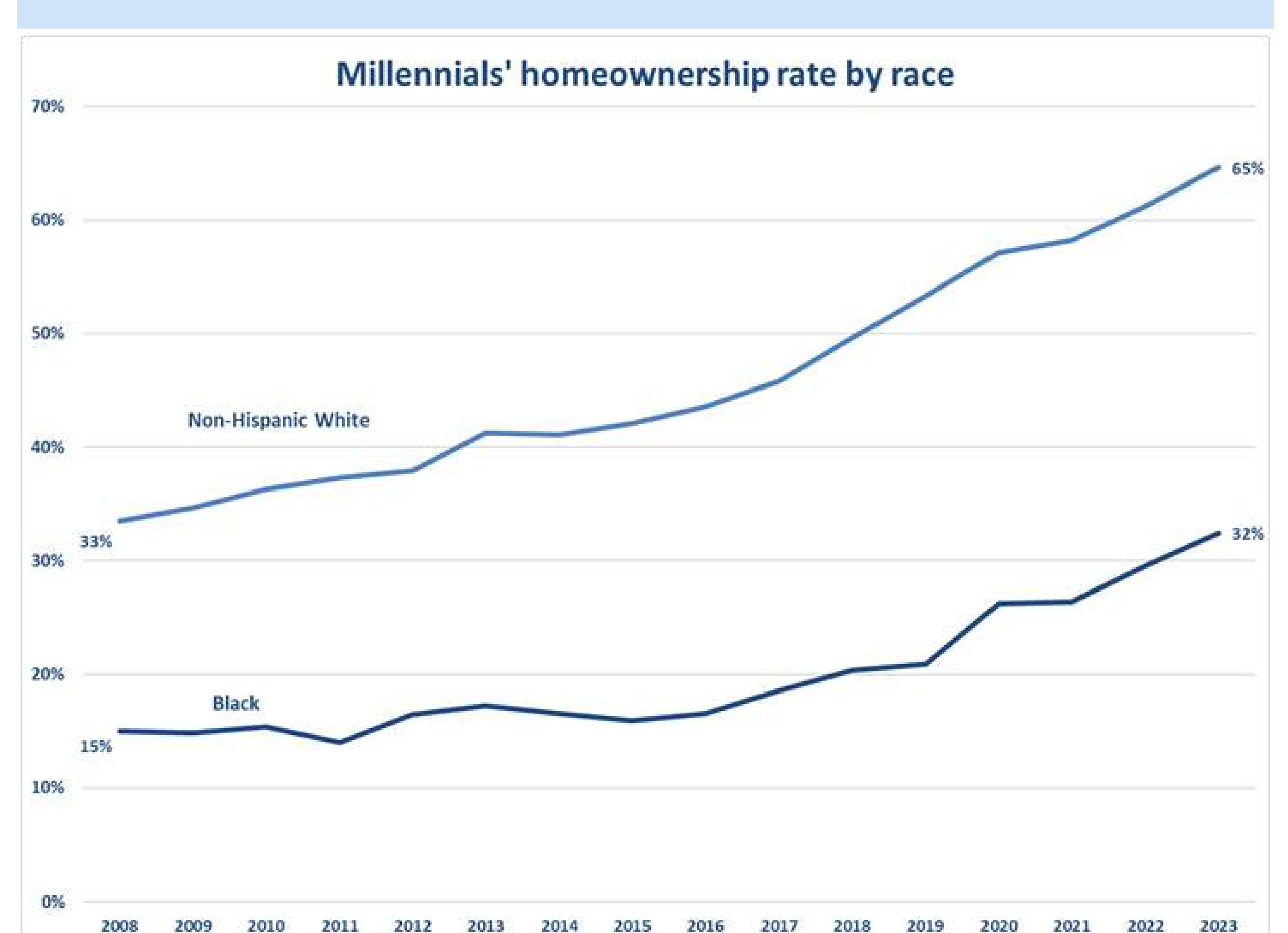
Source: Authors' calculations of HMDA data (2008-2023)

Homeownership Among Black Millennials

In 2021, millennials were the fastest-growing demographic among Black homebuyers.²⁹ As noted in last year's report, however, this upward trend experienced a slowdown in 2022 primarily due to rising interest rates, persistently high housing prices, and a decrease in available housing inventory.³⁰

Even with a noticeable rise in homeownership rates among Black millennials, their homeownership levels still fall significantly short when compared to their White peers and the homeownership gap between the two demographics has widened in recent years (Exhibit 34). The homeownership rate among Black millennials stood at 32 percent in 2023, less than a half of the 65 percent rate observed among White millennials.³¹

EXHIBIT 34



Source: Authors' calculations of data from U.S. Census Bureau and U.S. Bureau of Labor Statistics. Current Population Survey. Annual Social and Economic Supplements from 2008 to 2023. Retrieved from Flood, Sarah, et al. IPUMS CPS: Version 12.0 [dataset]. Minneapolis, MN: IPUMS, 2024, <https://doi.org/10.18128/D030.V12.0>. Accessed October 2024.

Black millennials face numerous obstacles that hinder their homeownership success, unlike their White counterparts. For example, Black millennials face a stark disadvantage in accumulated financial assets and wealth, which is critical for down payments.³² In addition, Black millennials who reached adulthood during the Great Recession, experienced double-digit unemployment rates which disproportionately affected Black individuals compared to their white counterparts.

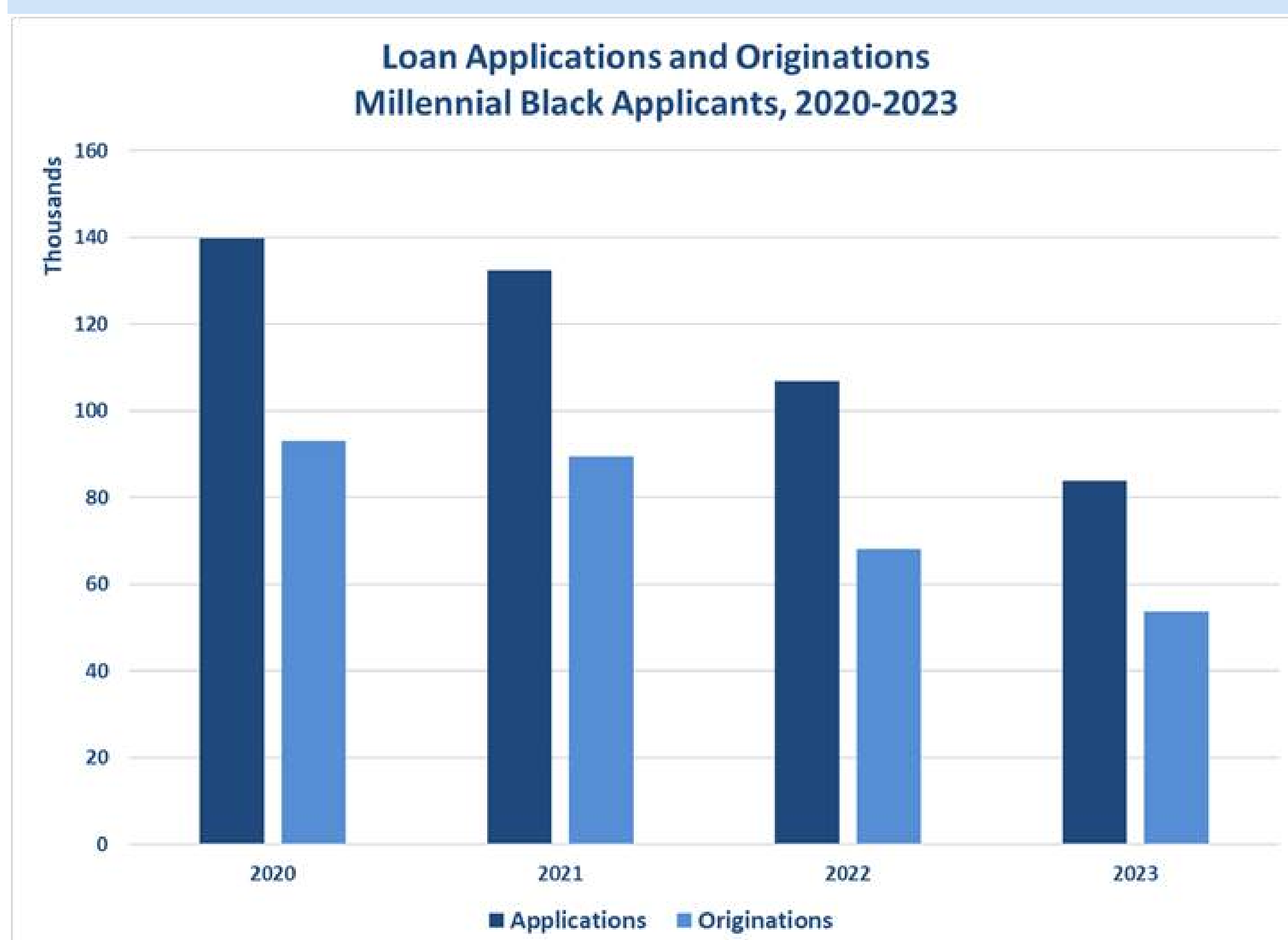
During the economic downturn, the unemployment rate for Black individuals escalated to nearly 16 percent, while it hovered around 9 percent for white individuals.³³ This economic disparity set Black millennials, who were at the nascent stages of their careers, at a significant disadvantage.

Moreover, unnecessarily stringent lending standards³⁴ implemented in the aftermath of the Great Recession particularly restricted Black potential homebuyers at a time when many in this generation were looking to purchase homes.

In 2020, there had been an impressive 28 percent increase in home loan applications from Black millennials over 2019, signaling hopeful signs for improving Black homeownership rates and longer holding periods for Black homeowners.³⁵ However, the encouraging trend regarding Black millennials' access to mortgage credit was short-lived. According to HMDA data, the application numbers from Black millennials has continued to drop since 2021 (Exhibit 35). From 2022 to 2023, both applications from and loan approvals to Black Millennials decreased by approximately 21 percent.

A particularly critical point is that Black millennials faced a much higher rejection rate for their applications compared to White millennials—16 percent versus 6 percent. Debt-to-income ratio was identified as the primary rejection reason for 42 percent of Black millennial applications as opposed to 33 percent for White millennials. Credit history was the second most cited reason for application denial for Black millennials. In 2023, 16 percent of rejections for Black millennials were due to credit history, compared to 13 percent for White millennial applicants (Table 21). Six percent of Black millennial borrowers were approved for high-cost loans in 2023, as opposed to only 3 percent of White millennial borrowers (Table 22). Seventy-two percent of White millennial homebuyers obtained a conventional loan in 2023, while only 40 percent of Black millennials did.

EXHIBIT 35



Source: Authors' calculations of HMDA data (2020-2023)

Notably, the reductions in applications and loan acceptances were slightly steeper among White millennials, both decreasing by 22 percent. Nonetheless, a substantial disparity persists in the proportion of applications between Black and White millennials.

In 2023, millennials accounted for 33 percent of the White applicant pool compared to 25 percent for Blacks (Table 20). The loan acceptance rate was 77 percent for White millennials but significantly lower for Black millennials, at 64 percent.

Mortgage Credit Availability

Credit Scoring and Related Risk Assessment Modifications

Credit scoring models are used to assess creditworthiness and the likelihood of default on credit obligations. Models are designed to provide an objective way for lenders to evaluate creditworthiness, ensuring fair and transparent lending practices. Factors evaluated include payment history, credit utilization, credit history length, types of credit accounts, and recent credit inquiries. The resulting credit score, typically ranging from 300 to 850, influences loan decisions and loan terms such as interest rates and repayment periods.

In 2023, FICO scores continued to be the most popular scoring models used by mortgage lenders to underwrite mortgages purchased or securitized by Fannie Mae and Freddie Mac.

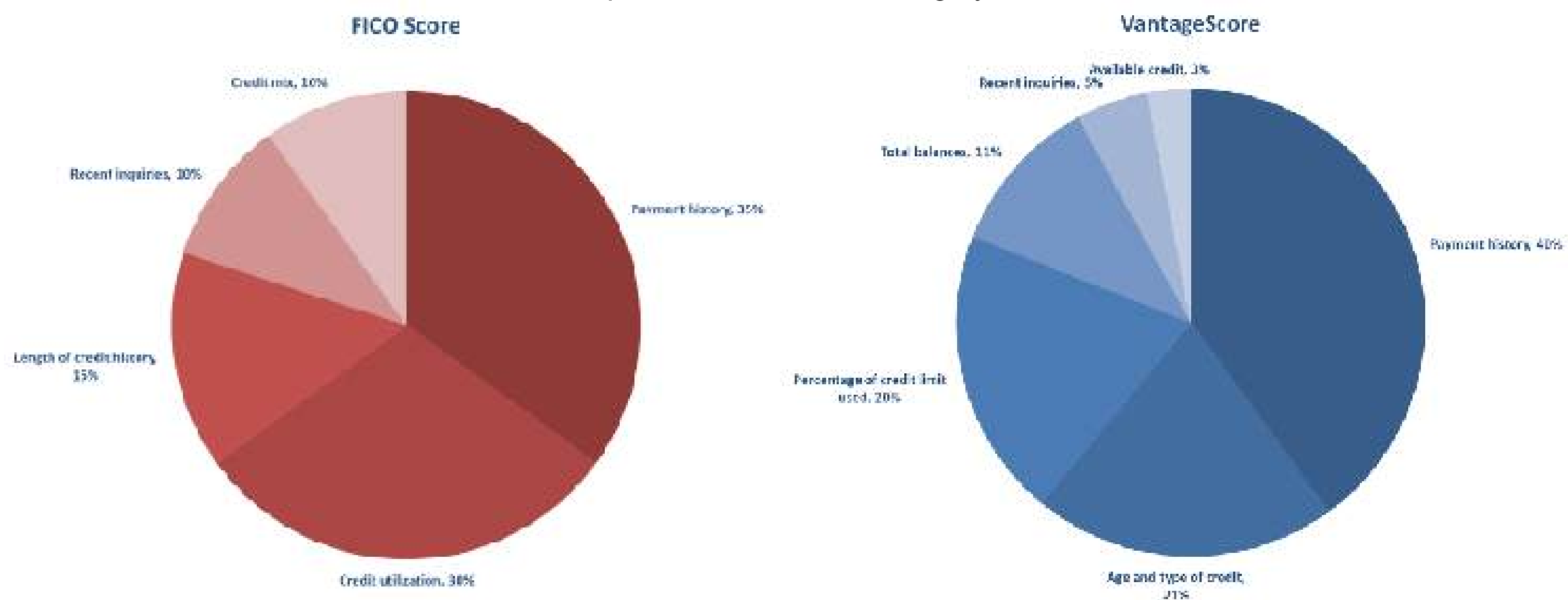
In October 2022, the Federal Housing Finance Agency (FHFA) introduced new guidelines for the

credit scoring models that Fannie Mae and Freddie Mac could use in the mortgage loan securitization process. Under these guidelines, lenders will have the option to assess borrowers with the FICO 10T model, which analyzes at least 24 months of a borrower's credit behavior instead of just a single point in time when the credit report was pulled. Additionally, lenders will be permitted to use VantageScore, which generally requires a less extensive credit history than FICO scores (Exhibit 36).

In March 2023, FHFA announced its intention to gather feedback from stakeholders regarding the projected implementation process and planned milestones regarding the transition from the Classic FICO credit score model to the newer FICO 10T and VantageScore 4.0 models.³⁶ Additionally, there is a move to change the current requirement from using three credit reports (known as "tri-merge") to using two credit reports ("bi-merge") for acquiring single-family loans.

EXHIBIT 36

Components of credit scoring systems



Source: Streaks, Jennifer, and Paul Kim. "FICO vs. VantageScore: Understanding the differences." Business Insider, 18 July 2024, <https://www.businessinsider.com/personal-finance/credit-score/fico-vs-vantagescore>.

These scoring systems factor in information from additional sources, such as payments for housing rent, utility bills, or mobile phone services. Use of a broader set of data could enable a larger number of applicants, particularly those who have been traditionally marginalized from owning homes, to be eligible for home loans. Nonetheless, it might require some time before the adoption of these modifications results in a noticeable difference on loan application outcomes.³⁷

Borrowers' credit scores, which are determined based on their financial history, are indirectly influenced by race. As highlighted in previous SHIBA reports, traditional credit scores relied heavily on borrowers' favorable relationships with financial institutions.³⁸ That reliance can inaccurately assess the creditworthiness of Blacks who historically were denied access to Banks and have fewer positive relationships with those institutions. But it does not indicate, per se, that those under-banked or unbanked households are high credit risks. Further, years of racial bias in the housing and employment sectors have restricted economic advancement and the ability to accumulate wealth for numerous generations of Black families. This has led

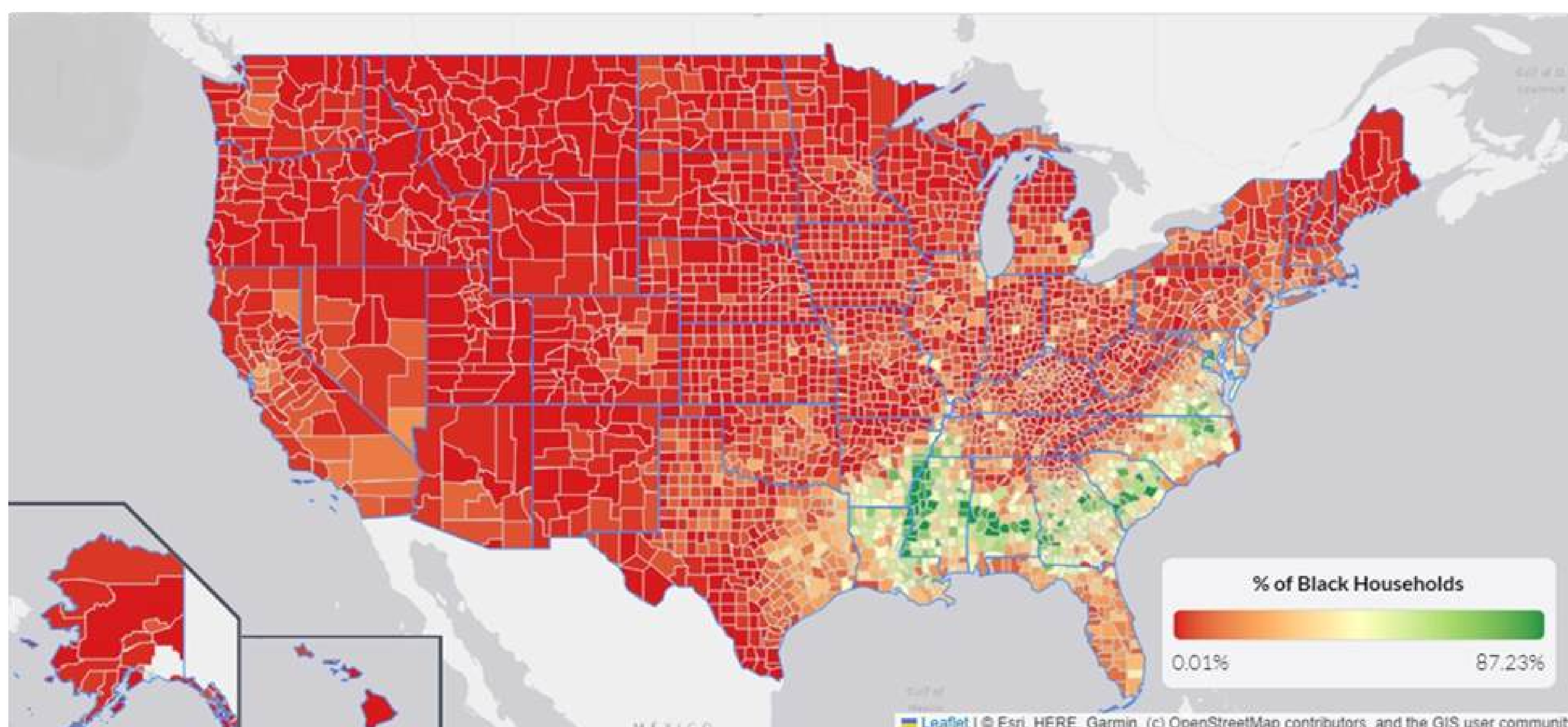
to generally lower credit ratings within this demographic than other racial categories.³⁹

The CFPB's examination of 2022 HMDA data indicates ongoing disparities in credit scores across different racial and ethnic groups, even though credit scores have seen an upward trend since 2018. As of 2022, the median credit score for Black borrowers increased to 695 from 682 in 2018. Nevertheless, Black and Hispanic borrowers still recorded significantly lower credit scores compared to their Asian and White counterparts. Specifically, in 2022, the median credit score for Black borrowers was 56 points below that of White borrowers who had a median credit score of 751.⁴⁰

Exhibits 37 and 38 illustrate how areas characterized by low average Vantage scores largely overlap with areas with large shares of Black households.

EXHIBIT 37

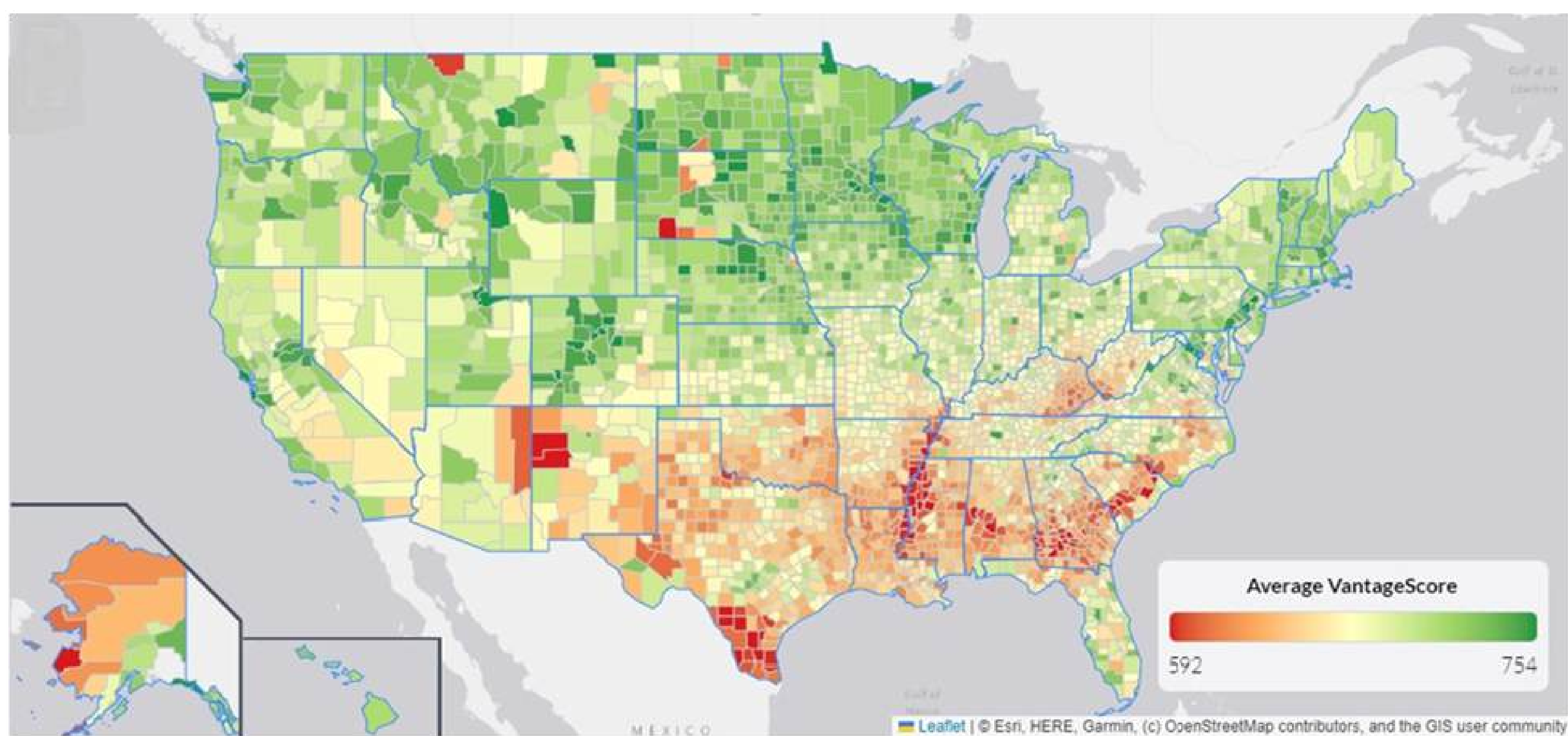
Distribution of Black households by county



Source: "Inclusion360 Powered by VantageScore®: Pinpointing Opportunities for Financial Inclusion." VantageScore® 2024. <https://www.vantagescore.com/lenders/inclusion360/#inclusion360>. Accessed October 2024.

EXHIBIT 38

Distribution of Vantage scores by county



Source: "Inclusion360 Powered by VantageScore®: Pinpointing Opportunities for Financial Inclusion." VantageScore® 2024. <https://www.vantagescore.com/lenders/inclusion360/#inclusion360>. Accessed October 2024.

Black adults are more likely than White adults to be credit invisible, meaning they do not have conventional credit scores, therefore they cannot qualify for a loan.⁴¹ Fourteen percent of Black consumers lack a credit history, making them invisible to credit agencies, while another 13 percent are unscorable; that is, their credit file lacks sufficient information to calculate a standard credit score. Only 9 percent of White consumers are credit invisible and 7 percent are unscorable. Blacks are 1.8 times more likely than their White counterparts to fall into these categories of lacking visibility or being unscorable in credit systems. Additionally, 40 percent of Black consumers fall into the subprime category due to low credit scores, which either disqualify them from loan approvals or subject them to higher interest rates. Black consumers are nearly twice as likely as White consumers to be ineligible for prime or near-prime rate loan products.⁴²

Blacks, due to their lower credit scores, are often excluded from traditional financial services more

frequently than Whites. According to Federal Reserve research, 14 percent of Black households were unbanked in 2023⁴³ (Exhibit 39). This contrasts with White households, 4 percent of whom were completely unserved by banks.

Additionally, the fewer number of banking branches in predominantly Black neighborhoods, as opposed to White neighborhoods, exacerbates the challenge Blacks face in accessing financial services, despite the rise of online banking. In 2023, in Black neighborhoods there were an average of 2 offices of depository institutions per 10,000 Black residents, compared to an average of 4 offices per 10,000 White residents in White neighborhoods. Black neighborhoods experienced a 33 percent decline in bank offices from 2013 to 2023, compared to a 25 percent decline in White neighborhoods.⁴⁴ In other words, Black neighborhoods started the period with fewer bank branches and a greater number of branches by 2023.

EXHIBIT 39

Selected economic characteristics of Black and White households, 2023

	Black	White
Unbanked rate	14%	4%
Use of nonbank check cashing or money order	28%	9%
Use of payday, pawn, auto title, and refund anticipation loans	10%	3%
Behind on student loan payments.	23%	10%
Denied credit or approved for less than was requested by family income		
Less than \$50,000	65%	47%
\$50,000- \$99,000	41%	27%
\$100,000 or more	29%	13%

Source: "Economic Well-Being of U.S. Households in 2023."

Due to restricted access to standard financial services, Black communities are more likely to depend on payday loans and other costly lending options, which traditional credit scoring systems do not consider and are often exploitative.⁴⁵ According to the Federal Reserve, 10 percent of Black consumers utilize services like payday loans, tax refund anticipation loans, auto title loans, and pawnshops compared to 3 percent of White consumers.

⁴⁶ Furthermore, 28 percent of Black consumers use nonbank check cashing or money order services compared to 9 percent of White consumers.

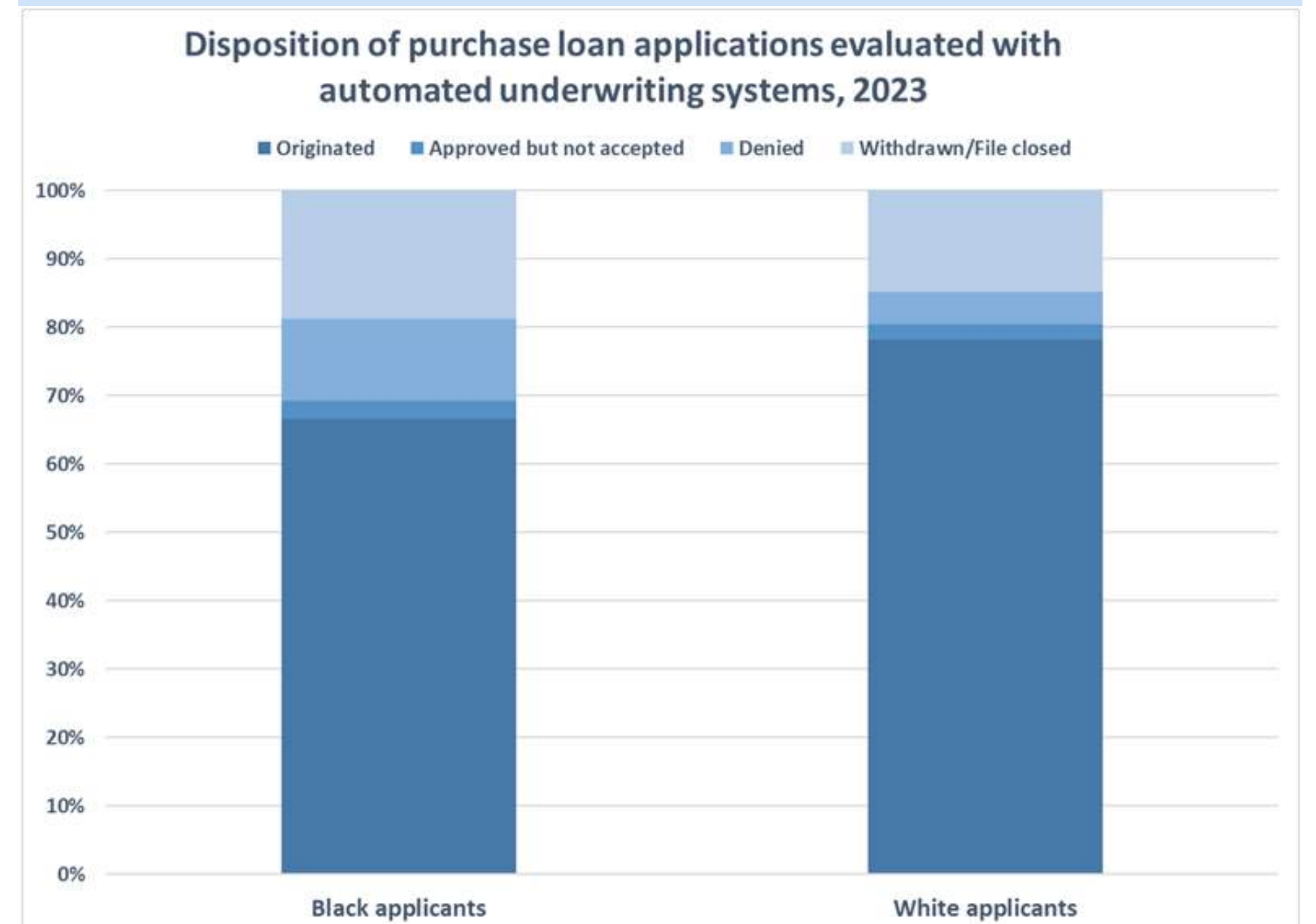
Black applicants are often less likely to get approval from race-neutral automated underwriting systems (AUS), despite these systems being designed to adhere to fair lending laws. Examples of these AUS include the Desktop Underwriter (DU) by Fannie Mae, Freddie Mac's Loan Product Advisor (LPA), and the TOTAL credit risk scorecard from FHA.

The algorithms built into these systems access creditworthiness based on several factors such as credit history, loan-to-value and debt-to-income ratios, and whether the applicant is self-employed. In 2023,

69 percent of loan applications submitted by Black applicants evaluated with AUS received an approval (with 67 percent eventually leading to a loan being issued).

Applications from White individuals experienced an approval rate of 80 percent when evaluated with AUS, as shown in Exhibit 40. Racial differences in approval rates, while using race-neutral AUS, mainly stem from disparities in credit scores and could further reflect systemic racial biases.⁴⁷

EXHIBIT 40



Source: Authors' calculations of 2023 HMDA data

Fannie Mae and Freddie Mac Pricing

Fannie Mae and Freddie Mac play a crucial role in the U.S. mortgage market by guaranteeing most of the country's mortgages. They purchase single-family loans from various lenders and aggregate these into mortgage-backed securities (MBS), either retaining them as investments or selling them in the secondary market. The GSEs take on the credit risk for these loans, ensuring that investors are paid back both the principal and interest. To compensate for this guarantee, along with covering administrative expenses and the costs associated with holding capital, the GSEs impose a guarantee fee (G-fee).

There are two categories of G-fees: ongoing and upfront. Both types are ultimately paid by the borrower, as lenders incorporate these fees into the interest rate of the loan.

Ongoing fees are paid monthly over the life of the loan, while upfront fees are one-time payments made by sellers to the GSEs when the loan is delivered. These upfront fees, known as loan-level price adjustments (LLPAs), were introduced in 2008 following the financial crisis to ensure that borrowers are charged based on their individual risk. Prior to that time, a uniform fee was assessed to all borrowers across a pool of loans of varying risk profiles.

LLPAs consider several risk factors, including the type of loan product, the borrower's credit score, and the loan-to-value (LTV) ratios. Fannie Mae and Freddie Mac use these risk attributes, along with a target rate of return on capital, to determine the cost of guaranteeing each loan. Exhibit 41 shows the timeline of changes in guarantee fees from 2008 to 2022.

EXHIBIT 41

Event Date	Change
March 2008	The Enterprises increased ongoing fees and added two new upfront fees: a fee based on the borrower's LTV ratio and credit score, and a 25-basis point adverse market charge.
March 2008 through 2011	The Enterprises gradually raised fees and refined their upfront fee schedules.
December 2011	Pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, FHFA directed the Enterprises to increase the ongoing fee for all loans by 10 basis points. The Enterprises pay this fee to the U.S. Department of the Treasury. This fee increase was effective with April 2012 deliveries and will expire after 10 years.
August 2012	FHFA directed the Enterprises to raise fees by an additional 10 basis points on average to better compensate for credit risk exposure. FHFA raised fees more on loans with terms longer than 15 years than on shorter-term loans to better align the gaps and made fees more uniform across sellers with varying loan delivery volumes. These changes were effective with December 2012 MBS deliveries.
December 2013	FHFA directed the Enterprises to increase ongoing fees by 10 basis points, change upfront fees to better align pricing with credit risk characteristics, and remove the 25-basis point adverse market charge for all but four states. However, in January 2014, FHFA suspended the implementation of these changes pending review.
April 2015	FHFA completed its fee review and directed the Enterprises to eliminate the adverse market charge in all markets and add targeted increases for specific loan groups effective with September 2015 deliveries. These changes were approximately revenue-neutral with little or no impact for most borrowers.
July 2016	Based on findings from FHFA's quarterly guarantee fee reviews, the Agency directed the Enterprises to set minimum ongoing guarantee fees by product type, effective in November 2016, consistent with FHFA's responsibility to ensure the safety and soundness of the Enterprises.
September 2018 & March 2019	The Enterprises implemented a 25-basis point upfront fee for loans on second homes where LTV exceeds 85 percent.
April 2020	FHFA allowed the Enterprises to purchase loans in forbearance, with an upfront fee add-on of 500 basis points for first-time home buyers and 700 basis points for all others, effective for loans closed through December 31, 2020, following multiple extensions.
August 2020	FHFA directed the Enterprises to introduce a 50-basis point upfront Adverse Market Refinance Fee, effective December 1, 2020, for cash-out and rate-term refinances. The Enterprises excluded loans with principal balance less than or equal to \$125,000, those associated with Home Ready/Home Possible, and construction-to-permanent loans meeting certain criteria.
July 2021	FHFA announced that the Enterprises would eliminate the Adverse Market Refinance Fee for loan deliveries effective August 1, 2021.
November 2021	The Infrastructure Investment and Jobs Act extended to 2032 the existing 10-basis point ongoing fee arising from the Temporary Payroll Tax Cut Continuation Act of 2011, which was due to expire in 2022. The Enterprises remit the proceeds from this fee to the U.S. Department of the Treasury.
January 2022	FHFA announced targeted increases to upfront fees for certain high balance loans and second home loans, effective April 1, 2022.
October 2022	FHFA announced the elimination of upfront fees for certain homebuyers and affordable products. Upfront fees were eliminated for first-time homebuyers at or below 100 percent of area median income, and below 120 percent in high-cost areas; HomeReady and Home Possible loans; HFA Advantage and HFA Preferred loans; and single-family loans supporting the Duty to Serve program. Targeted increases to upfront fees for cash-out refinances were announced, effective February 1, 2023.

Source: Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2022. Federal Housing Finance Agency, May 2024.
<https://www.fhfa.gov/sites/default/files/2024-05/GFee-Report-2022.pdf>

In 2021, the FHFA introduced and implemented a new capital rule for GSEs called the Enterprise Regulatory Capital Framework (ERCF), aiming to better align the GSEs' capital requirements and pricing strategies. In 2022, the Enterprises moved from the Conservatorship Capital Framework (CCF) to the ERCF for calculating capital needs and buffers. The ERCF, which adjusts capital requirements based on credit attributes through standard grids, has decreased the risk-based capital requirements for loans with LTV ratios of over 80 percent (Exhibit 42).

revising its guidelines is to enhance the pricing assistance for numerous qualified first-time homebuyers who have minimal funds for a downpayment.

Assessing risk at the individual borrower level is essential. Charging it at the individual level is discriminatory. Loan-level price adjustments fail to recognize that the financial vulnerability of borrowers of color is a direct consequence of discriminatory practices in the labor and housing

EXHIBIT 42

LLPA by credit score and LTV ratio

Credit Score	LTV Range									
	Applicable for all loans with terms greater than 15 years									
	≤ 30.00%	30.01 – 60.00%	60.01 – 70.00%	70.01 – 75.00%	75.01 – 80.00%	80.01 – 85.00%	85.01 – 90.00%	90.01 – 95.00%	>95.00%	SFC
≥ = 780	0.000%	0.000%	0.000%	0.000%	0.375%	0.375%	0.250%	0.250%	0.125%	N/A
760 – 779	0.000%	0.000%	0.000%	0.250%	0.625%	0.625%	0.500%	0.500%	0.250%	N/A
740 – 759	0.000%	0.000%	0.125%	0.375%	0.875%	1.000%	0.750%	0.625%	0.500%	N/A
720 – 739	0.000%	0.000%	0.250%	0.750%	1.250%	1.250%	1.000%	0.875%	0.750%	N/A
700 – 719	0.000%	0.000%	0.375%	0.875%	1.375%	1.500%	1.250%	1.125%	0.875%	N/A
680 – 699	0.000%	0.000%	0.625%	1.125%	1.750%	1.875%	1.500%	1.375%	1.125%	N/A
660 – 679	0.000%	0.000%	0.750%	1.375%	1.875%	2.125%	1.750%	1.625%	1.250%	N/A
640 – 659	0.000%	0.000%	1.125%	1.500%	2.250%	2.500%	2.000%	1.875%	1.500%	N/A
≤ 639	0.000%	0.125%	1.500%	2.125%	2.750%	2.875%	2.625%	2.250%	1.750%	N/A

Source: Fannie Mae. Originating & Underwriting Eligibility & Pricing.⁴⁸

As a result of the recent changes, loans with LTV ratios above 80 percent will cost 1.875 percent more for a borrower with a credit score under 640, relative to an individual with a credit score of 740 or more. This is a reduction from the previous gap of 3 percentage points prior to the implementation of these adjustments.

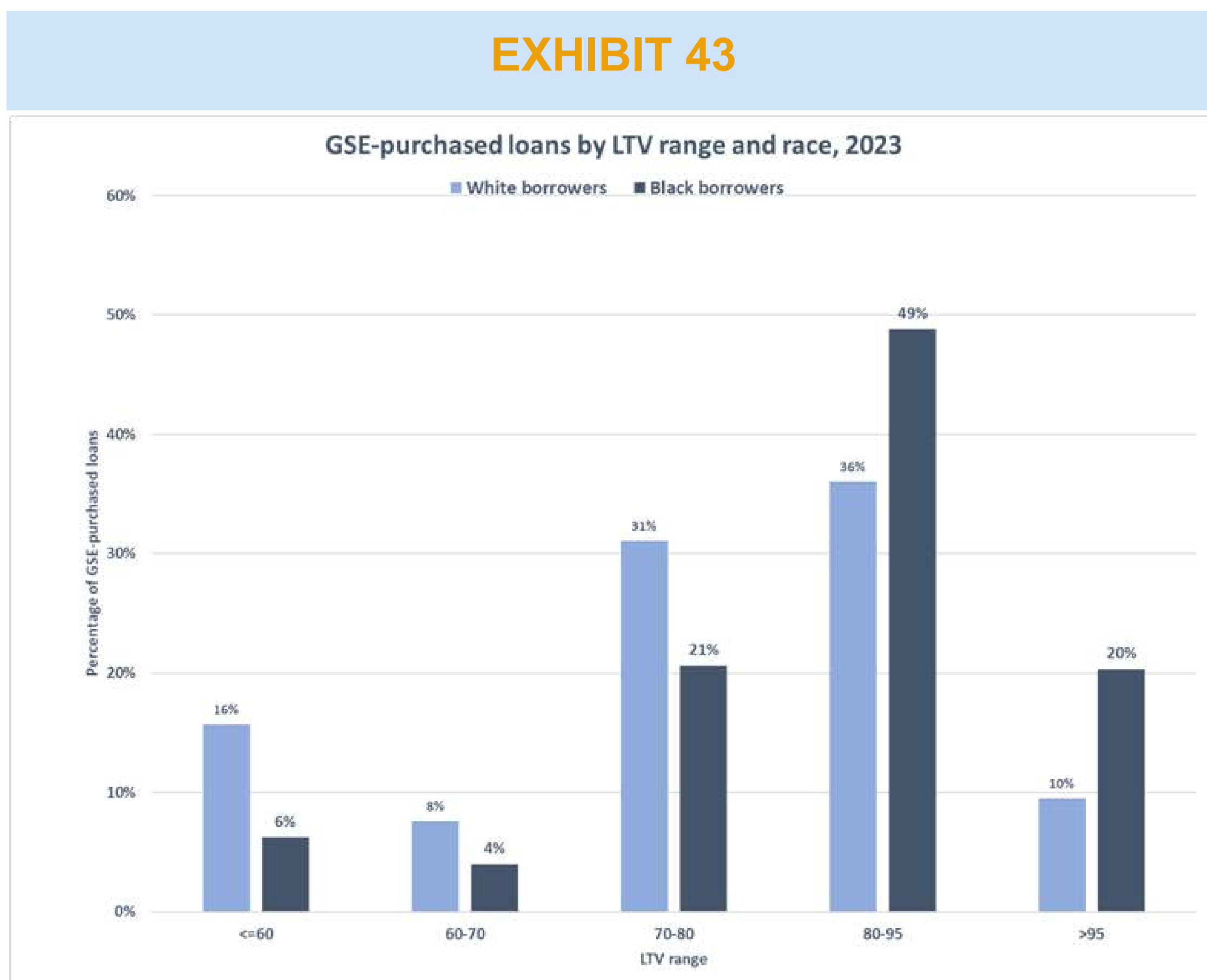
In October 2022, the FHFA eliminated upfront guarantee fees for mortgages to many first-time homebuyers, low-income earners, and borrowers in underserved communities, along with reduced upfront fees for other groups. The goal of the FHFA in

finance sectors, which were both federally sanctioned and supported throughout much of the previous century. The structure of guarantee fees and LLPAs affects the capacity of borrowers of color to obtain affordable credit by making it cost-prohibitive for them to enter the mortgage market, thereby widening the racial homeownership gap.

For instance, guarantee fees are higher for mortgages with smaller down payments, adversely affecting borrowers with limited savings,

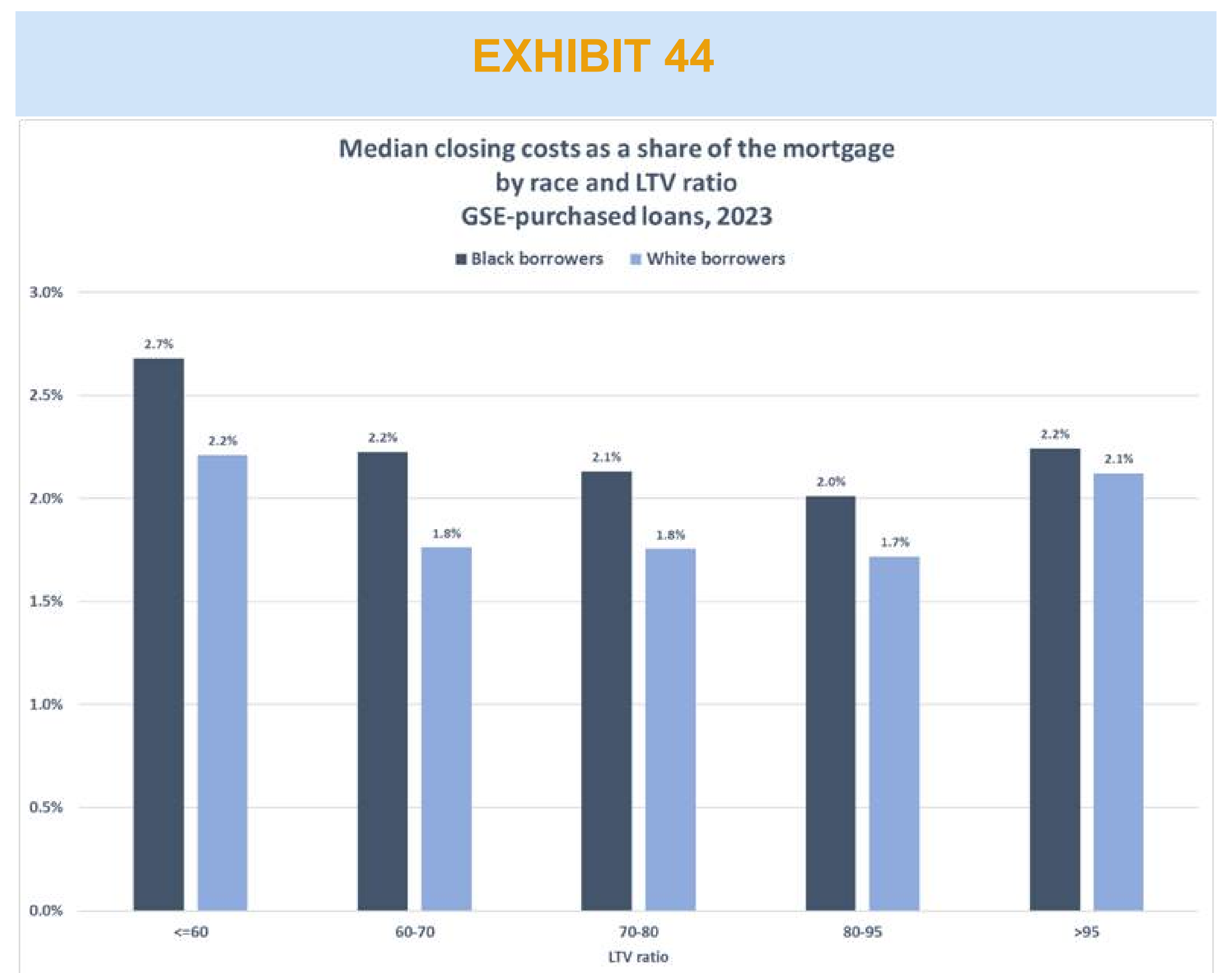
who are disproportionately Black. As highlighted earlier, people of color, especially Black Americans, are more likely to face financial barriers that prevent them from making large down payments and are more prone to have lower credit scores because of enduring discrimination in housing and employment practices across generations. Exhibit 43 illustrates the distribution of GSE-purchased loans by LTV range and race in 2023.

In 2023, median closing costs for GSE-purchased loans to Black borrowers represented a larger share of the mortgage compared to White borrowers across all LTV ratios (Exhibit 44).



Source: Authors' calculations of 2023 HMDA data

LLPAs reflect racial disparities in credit scores and LTV ratios and typically result in disproportionately costlier loans for Black borrowers than for White borrowers. The share of GSE-purchased loans to borrowers with LTV ratios greater than 80 decreased from 2022 to 2023, both among Black and White borrowers. Racial disparities, however, persisted. In 2023, 69 percent of GSE-purchased loans to Black borrowers had an LTV ratio greater than 80, down from 71 percent in 2022. The percentage of GSE-purchased loans to White borrowers with an LTV ratio greater than 80 decreased from 49 percent in 2022 to 46 percent in 2023.



Source: Author's calculations of 2023 HMDA data

Disparate Home Appraisal Practices

During the home purchase process, mortgage lenders require an appraisal to assess the property's worth and a low valuation can affect a homebuyer's mortgage loan; the borrower may need to pay a higher downpayment to compensate for the undervaluation amount, pay a higher interest rate, experience more stringent insurance requirements, or be rejected. Like mortgage lenders and brokers, appraisers are subject to fair housing and lending laws. The Fair Housing Act of 1968, aimed at ending segregation, prohibits discrimination based on race, color, religion, or national origin, and later expanded to include sex, disability, and family status. The Equal Credit Opportunity Act of 1974 also bans discrimination by lenders on such as race, sex, age, disability, and source of income. Despite these regulations, systemic racial bias in property valuations persists, as multiple anecdotal accounts show.⁴⁹

A significant body of evidence underscores that properties in predominantly Black areas or in communities experiencing racial shifts are often appraised lower and increase in value more slowly compared to those in mainly White areas.⁵⁰ This trend persists even when factors like the quality of the property, community amenities, and location are considered.

The pattern of undervaluing properties in Black communities exacerbates the racial wealth divide. Appraisal bias is one of the key factors, along with systemic and blatant discriminatory lending and underwriting practices, that contribute to lower housing demand in predominantly Black neighborhoods, a decreased rate of homeownership among Black families, and diminished returns on their investments in homeownership when compared to White families. Moreover, while homeownership represents the primary wealth source for the average household in the U.S., for Black households, home

equity constitutes a larger portion of their overall share of wealth. The negative effects of appraisal bias are particularly noticeable in Black neighborhoods that were formerly redlined.⁵¹

In 2021, the Biden-Harris administration announced the creation of the federal Interagency Task Force on Property Appraisal and Valuation Equity (PAVE) to evaluate the causes, extent, and consequences of racial and ethnic bias in home valuations. On March 23, 2022, the task force released the PAVE Action Plan, which includes several policy initiatives designed to reduce the prevalence and impact of appraisal bias.

⁵²Furthermore, in October 2022, the FHFA released Uniform Appraisal Dataset (UAD) Aggregate Statistics with information on home appraisals at various geographic levels.⁵³

Using neighborhood-level UAD data, a 2022 report by the Brookings Institution showed that appraisal transactions in majority-Black neighborhoods are 1.9 times more likely to be appraised under the contract price than similar homes in White neighborhoods.⁵⁴ A longitudinal analysis of UAD aggregate statistics performed by Junia Howell and Elizabeth Korver-Glass found that homes in White neighborhoods are valued twice as much as those in minority communities (i.e., neighborhoods with no White residents).⁵⁵ The study found that the average appraised property value gap based on race has widened over time, and the pace has accelerated from 2013 to 2021. Within metropolitan areas with a Black population exceeding 50,000, the typical homes in a Black neighborhood had an appraisal value of \$262,000. Meanwhile, similar homes in White neighborhoods were valued at \$629,000 in those same metropolitan areas.

The newly released report on appraisal disparities commissioned by NAREB indicates that in 2023, an average of 12 percent of homes appraised below contract price in Black neighborhoods compared to 9 percent of homes in White neighborhoods.⁵⁶ The study aligns with earlier research on appraisal disparities and finds that homes in Black neighborhoods are generally appraised lower than those in White neighborhoods after adjusting for property and neighborhood attributes.

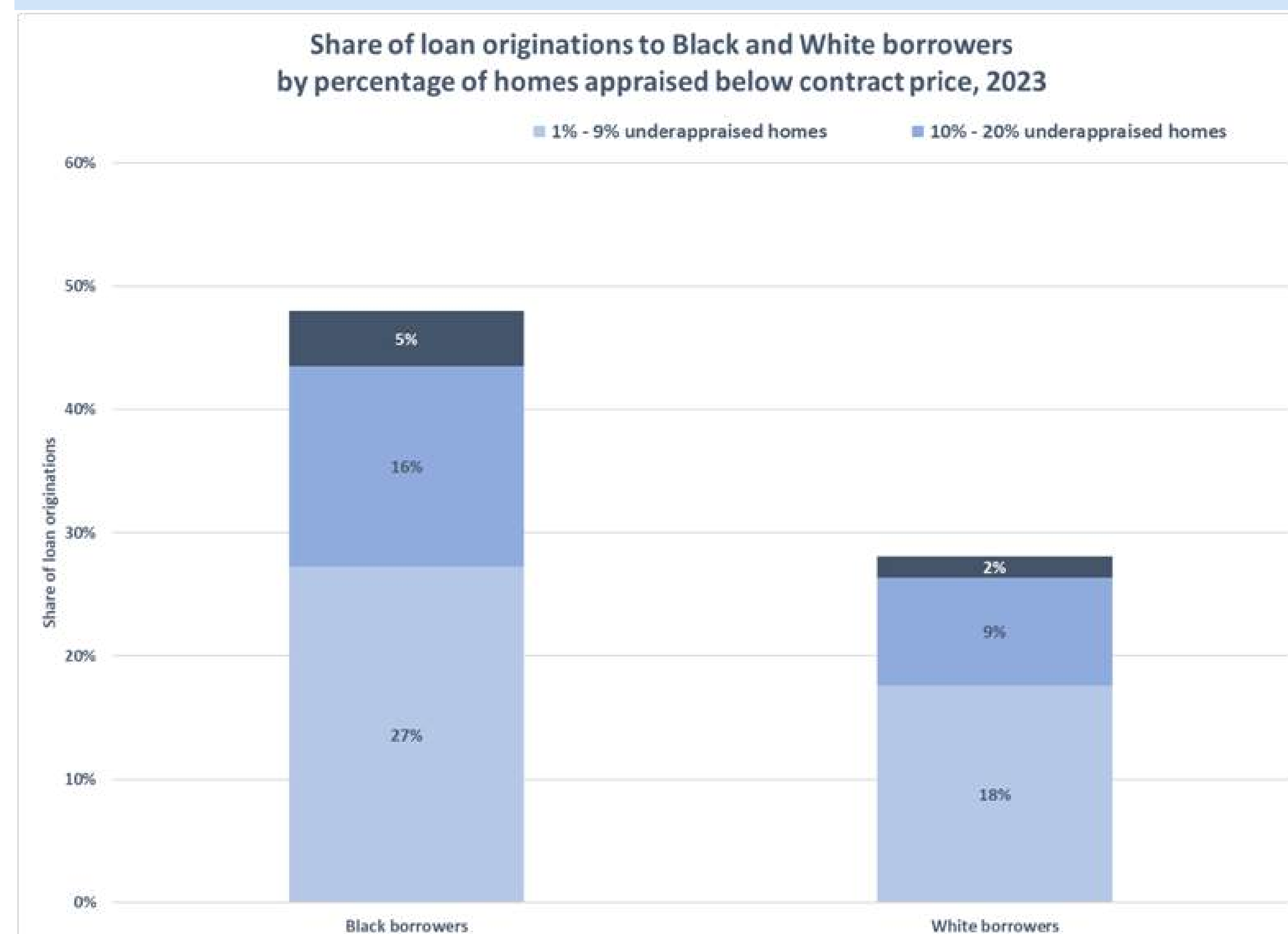
The NAREB-sponsored research also aligns with encouraging findings from the FHFA, indicating that since the initiation of PAVE, the gap in contract price undervaluation has narrowed.

However, the study reveals that in 2021 and 2023, when considering the volume of home purchases by Black borrowers within Black neighborhoods (areas where Black people are purchasing homes as opposed to merely residing), neighborhoods with a high percentage of loans to Black borrowers experienced a median home appraisal undervaluation gap of 47 percent compared to White neighborhoods without Black borrowers.

Interestingly, in Black neighborhoods without any loans made to Black borrowers, the median appraised value of homes has surged, and the undervaluation gap compared to White neighborhoods with White borrowers has narrowed. Conversely, the median appraised home undervaluation gap has expanded in areas with some loans made to Black borrowers and in those where the proportion of loans to Black borrowers exceeds the national average.

Further analysis of HMDA data indicates that 48 percent of loan originations to Black borrowers in 2023 were issued in census tracts with any homes that were appraised below the contract price, compared to 28 percent of loan originations to White borrowers (Exhibit 45).

EXHIBIT 45

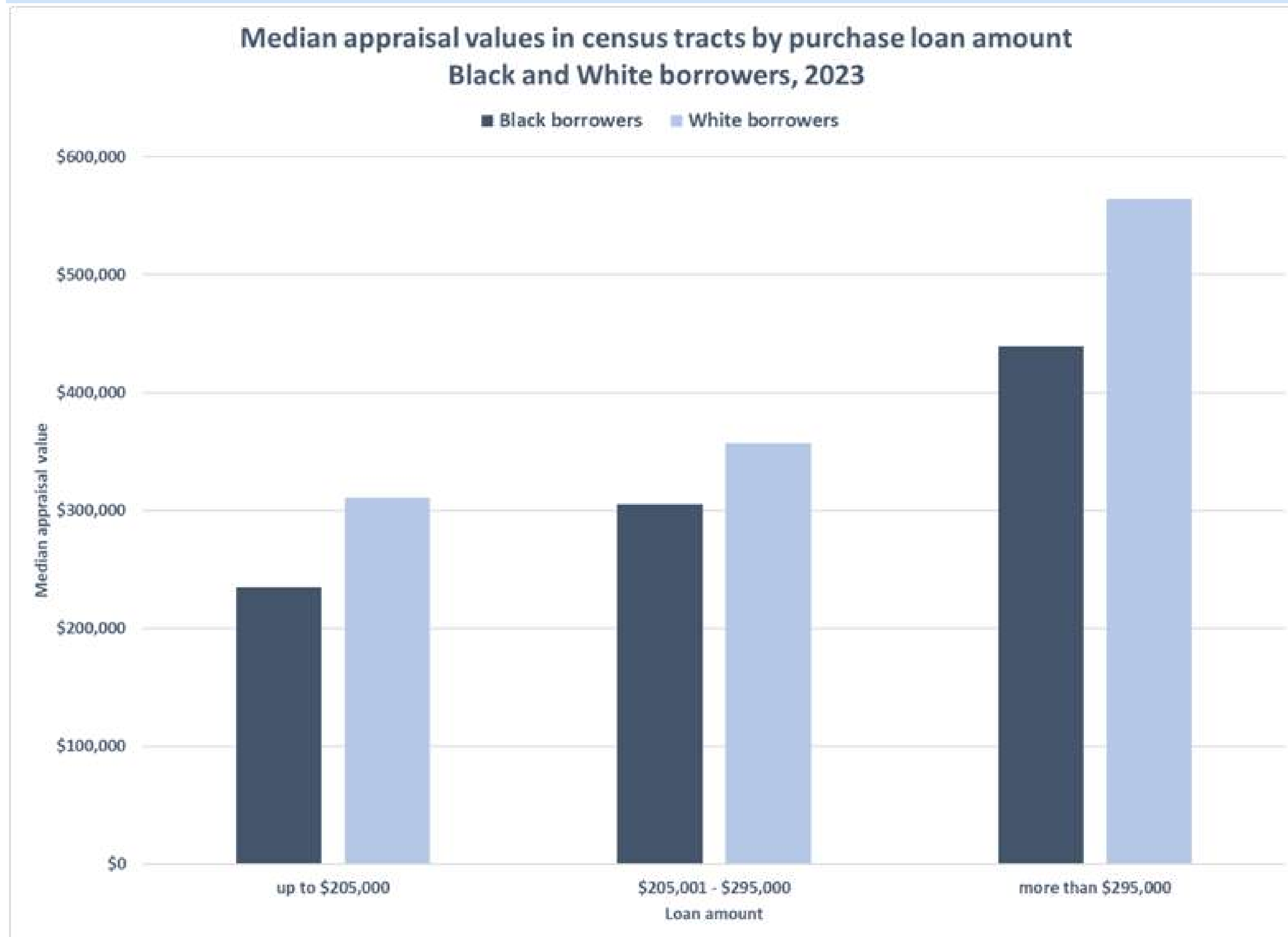


Source: Authors' calculations of 2023 HMDA data and FHFA Uniform Appraisal Dataset

Twenty-seven percent of loan originations to Blacks were made in census tracts with 1 percent to 9 percent of homes appraised below contract price, compared to 18 percent of loans to White borrowers. Furthermore, 16 percent of loans to Blacks were issued in neighborhoods where 10 percent to 20 percent of homes were underappraised compared to 9 percent to loans to Whites. Finally, 5 percent of loans to Black borrowers were issued in neighborhoods where more than 20 percent of homes were underappraised compared to 2 percent of loans to White borrowers.

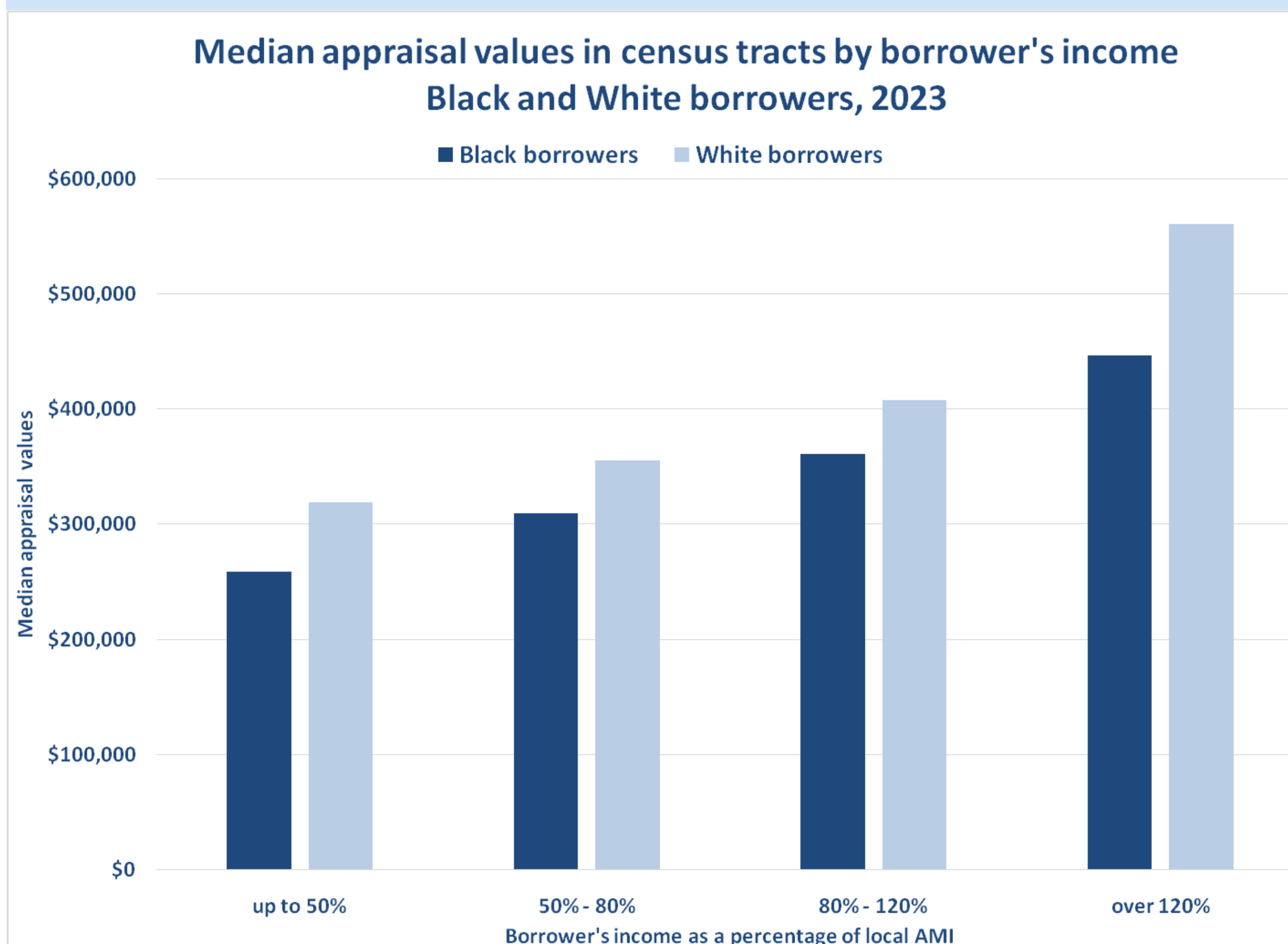
In 2023, there were also disparities in median home values between neighborhoods where Black borrowers received home mortgage loans and those where White borrowers purchased their homes. Disparities were consistent when accounting for both loan amounts and borrowers' income brackets (Exhibits 46 and 47).

EXHIBIT 46



Source: Authors' calculations of 2023 HMDA data and FHFA Uniform Appraisal Dataset

EXHIBIT 47



Source: Authors' calculations of 2023 HMDA data and FHFA Uniform Appraisal Dataset.

Climate Change and Black Homeownership

U.S. households, like households worldwide, are facing an increase in both the frequency and severity of natural disasters and climate-related weather events. In 2023, the U.S. experienced \$114 billion in economic damages from natural disasters, more than the long-term average of \$105 billion.⁵⁷

Black communities face disproportionately high risks from climate change effects. Historic discrimination, blatant and systemic has led to Black families primarily living in areas more prone to natural disasters, which have become increasingly frequent and severe.⁵⁸Contributing past discriminatory practices include redlining, restrictive covenants, the implementation of slum-clearance policies, the placement of subsidized housing in environmentally sensitive and/or toxic areas, housing discrimination, and unequal investment.

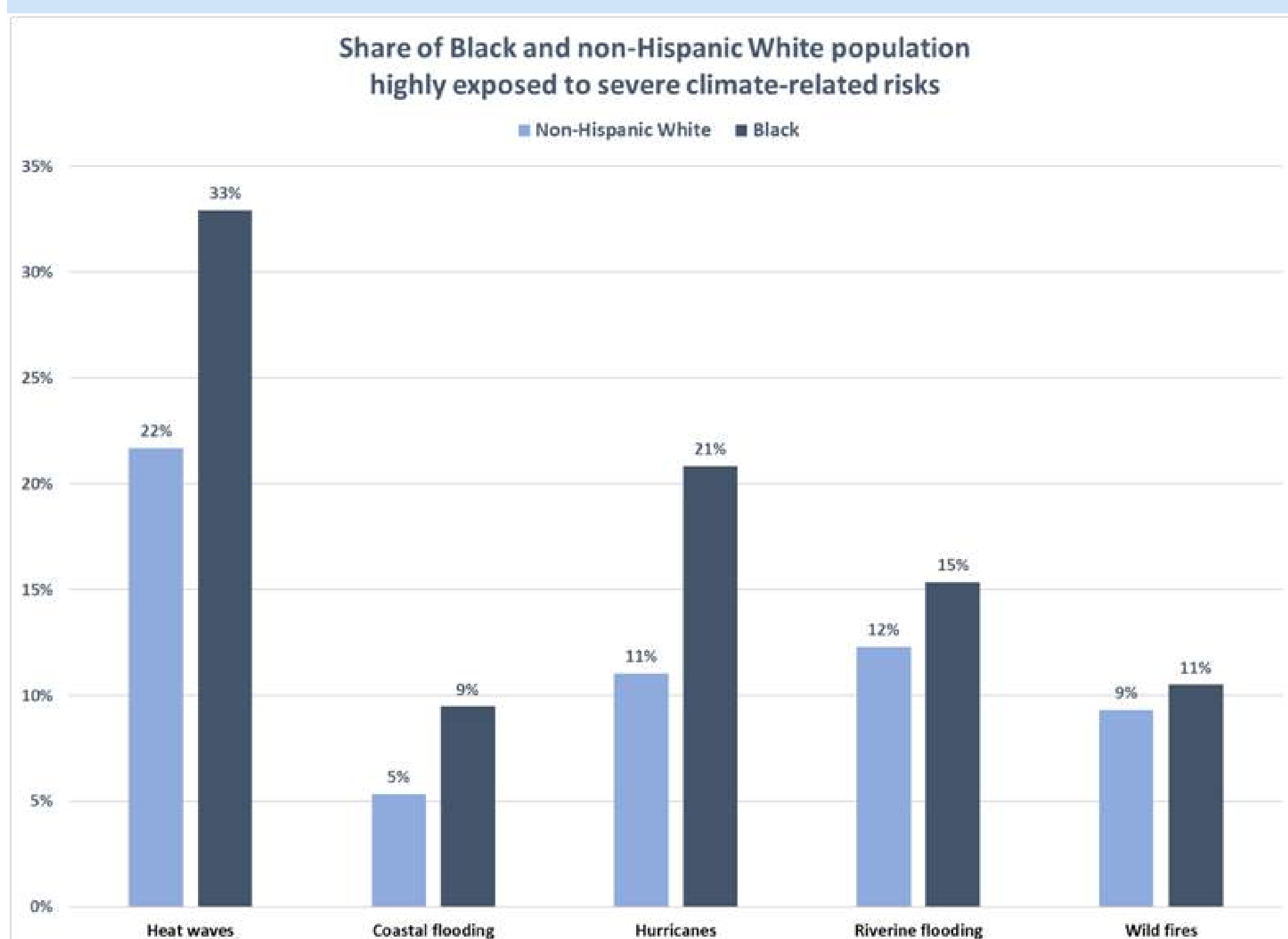
Blacks frequently reside in low-lying areas prone to flooding, where communities have scarce economic resources to either prepare for or recover from severe weather-related disasters.⁵⁹The growing frequency and intensity of climate disasters exert immense strain on the deteriorating infrastructure of long-neglected Black neighborhoods in cities like New Orleans, Louisiana, Houston, Texas, and Jackson, Mississippi. These areas have experienced catastrophic floods that have disproportionately impacted low-income Black communities. As this report is being prepared, two major hurricanes – Helene and Milton – have hit the Gulf of Mexico region, with devastating consequences for millions of families in the Southern states, where Blacks are heavily concentrated.

Federal initiatives, such as the Urban Renewal projects that facilitated the building of major highways through Black neighborhoods, have increased these communities' exposure to both pollution and higher temperatures.⁶⁰Factors like land cover characteristics, urban planning, and zoning practices intensify the urban heat island effect within Black communities and areas previously subjected to redlining.⁶¹

These neighborhoods often suffer from heat-retaining construction materials, outdated buildings and infrastructure, insufficient insulation and air conditioning, and limited green spaces.⁶²Consequently, Black communities face a significant public health threat from heat exposure, with heat-related mortality rates significantly higher than those in White communities.⁶³

Exhibit 48 shows that 21 percent of the Black population in the U.S. is highly exposed to hurricanes compared to 11 percent of the White population. Blacks are also more exposed to coastal and riverine flooding as well as to wildfires relative to Whites. Furthermore, 33 percent of the Black population resides in areas at high risk of heat waves, compared to 22 percent of Whites.

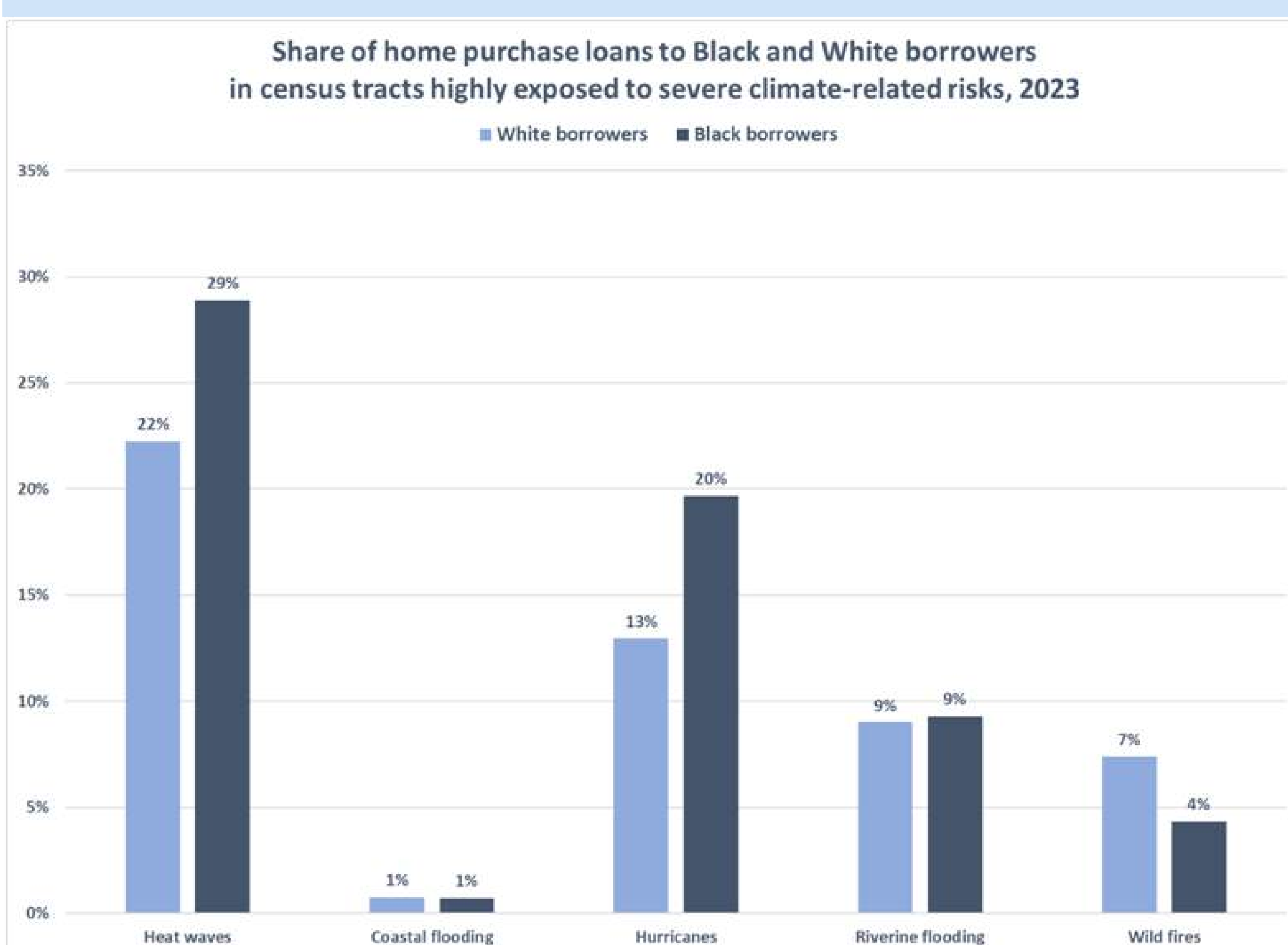
EXHIBIT 48



Source: Authors' calculations of U.S. Census Bureau, American Community Survey, 2018-2022, retrieved from Steven Manson, Jonathan Schroeder, David Van Riper, Katherine Knowles, Tracy Kugler, Finn Roberts, and Steven Ruggles. "IPUMS National Historical Geographic Information System: Version 18.0 [dataset]." Minneapolis, MN: IPUMS 2023. <http://doi.org/10.18128/D050.V18.0>. Accessed September 2024; FEMA, National Risk Index, March 2023 (version 1.19.0), available at <https://hazards.fema.gov/nri/data-resources>.

A significant portion of residential mortgages issued to Black borrowers are for homes in census tracts that are at high risk from climate change effects. In 2023, 29 percent of mortgages to Black borrowers were in areas highly susceptible to heat waves, in contrast to 22 percent of mortgages to White borrowers. Furthermore, 20 percent of mortgages granted to Black borrowers were in areas greatly prone to hurricanes, compared to 13 percent of the mortgages to White borrowers, as indicated in Exhibit 49.

EXHIBIT 49



Source: Authors' calculations of HMDA 2023 data; FEMA, National Risk Index, March 2023 (version 1.19.0), available at <https://hazards.fema.gov/nri/data-resources>.

In high-risk zones, local governments tend to invest more in flood protection in areas with higher incomes and property values.⁶⁴ Moreover, federal support is often distributed through cost-benefit analyses that disproportionately favor wealthier, predominantly White neighborhoods over economically disadvantaged and racially diverse areas.⁶⁵

Compounding the negative implications for Black households is the fact that as climate change risks have increased many insurance companies have hiked premiums and withdrawn from high-risk areas.⁶⁶ Climate change has led to more frequent and severe weather-related damages, increasing both direct insurance payouts and the cost of reinsurance in an unregulated global market. In 2023, insurers covered around \$80 billion of losses due to natural disasters. Severe thunderstorms played a major role, marking 2023 as the costliest year for severe thunderstorms in U.S. history with nearly \$58 billion in insured losses.⁶⁷ This situation has prompted insurers to raise premiums, limit coverage, and be more selective in underwriting to maintain profits.

Facing regulatory hurdles and cost coverage issues, insurers began reducing or halting new policy issuances in high-risk areas, leading to a 35 percent reduction in home insurance availability and a record 44 percent decline in online quote approvals by June 2023.⁶⁸

Where regulators approved rate increases, premiums surged, marking an 8.6 percent rise for new policies in 2023—a sharp contrast to previous years' growth rates. For example, the average premium jumped from \$1,175 in 2019 to about \$1,700 in 2023, with renewal policies experiencing a staggering 23.7 percent increase, significantly higher than the historical 10-12 percent. These

⁶⁹These dynamics have driven a significant rise in reinsurance rates, marking the most prolonged increase in decades.⁷⁰

State agencies regulate the increase of rates for homeowner insurance, which may hinder companies from setting policy prices that truly represent the risk involved.⁷¹This means instead of charging significantly higher rates for policies in areas that are more at risk—such as places that are below sea level or near regions susceptible to wildfires—insurance companies are required to maintain relatively uniform pricing throughout the entire state.

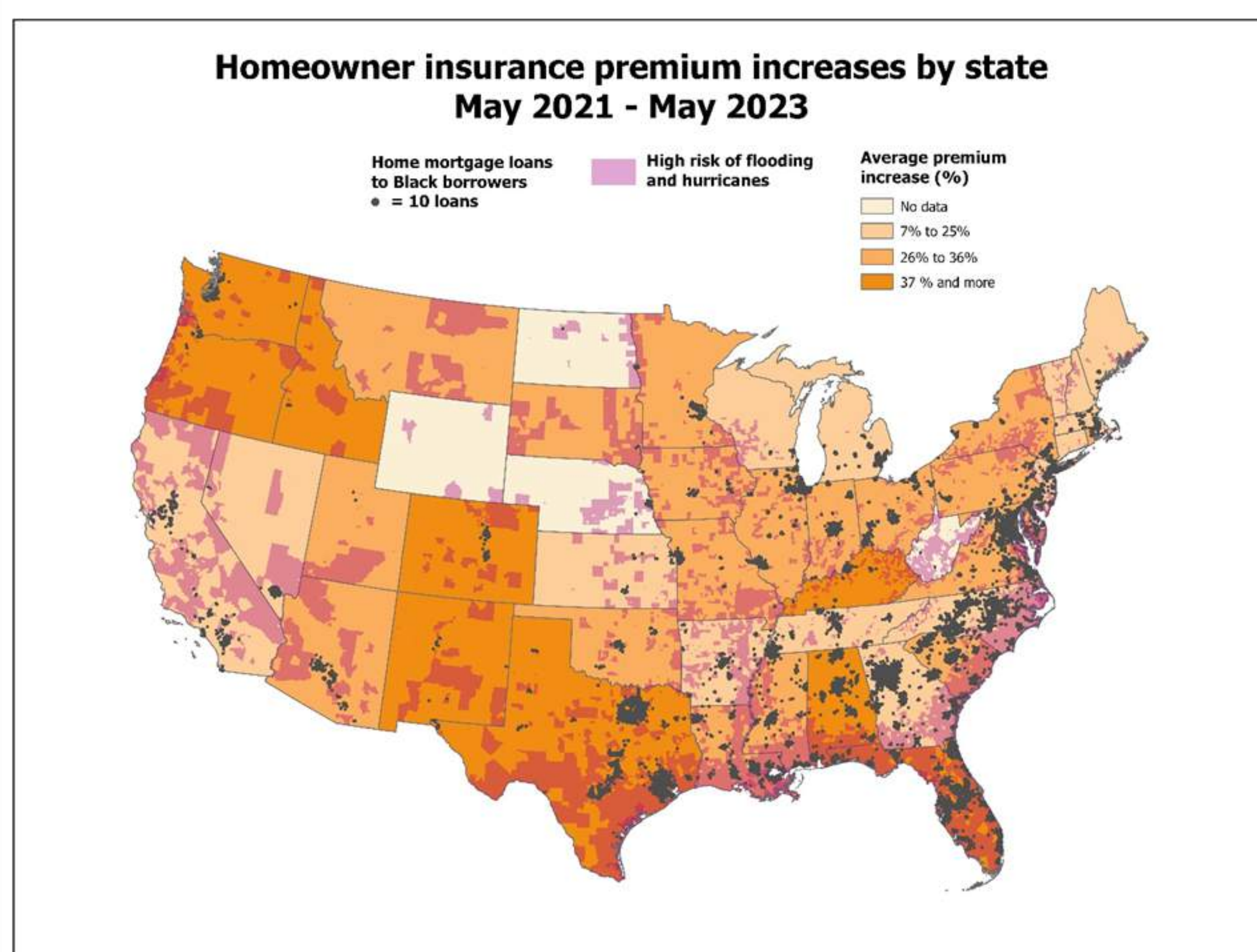
Texas and Florida, where a cumulative 54 percent of mortgage loans were issued to Black borrowers in 2023, were among the states with the highest hikes in home insurance premiums. From May 2021 to May 2023, Texas experienced a 46 percent increase in average home insurance premiums, and Florida experienced a staggering 68 percent increase.⁷²

Moreover, weak state-level regulations have allowed insurers to easily withdraw from markets, further complicating the landscape. The home insurance market's instability in 2023 also troubled mortgage lenders, with 79 percent reporting increased insurance-related issues over the past year, impacting borrower eligibility and loan closing times.⁷³High premiums and a lack of options were primary culprits, compounded by longer customer service wait times and limited online policy-binding capabilities. This situation has placed additional strains on lenders, already navigating a challenging housing market, by inflating costs and hindering the efficiency of the closing process.

Virtually all lenders, encompassing those issuing Fannie Mae and Freddie Mac conforming loans as well as those providing government-backed loans like FHA mortgages, mandate that borrowers maintain homeowner's insurance for the entirety of their loan period. Standard homeowner insurance policies typically provide coverage for a variety of risks, including damage from fire and smoke, wind and hail, plumbing problems, snow and ice, as well as vandalism and theft.

However, flood damage usually requires a separate policy. Residents in areas designated by the Federal Emergency Management Agency (FEMA) as flood zones or those prone to hurricanes might also be required to acquire additional insurance policies to cover these specific disasters. Homeowners who have paid off their mortgages can opt out of carrying home insurance. However, homeowners who choose not to have insurance run the risk of not just losing their homes but also their most significant financial investment. American Housing Survey data indicate that in 2023, about 6 million American

EXHIBIT 50



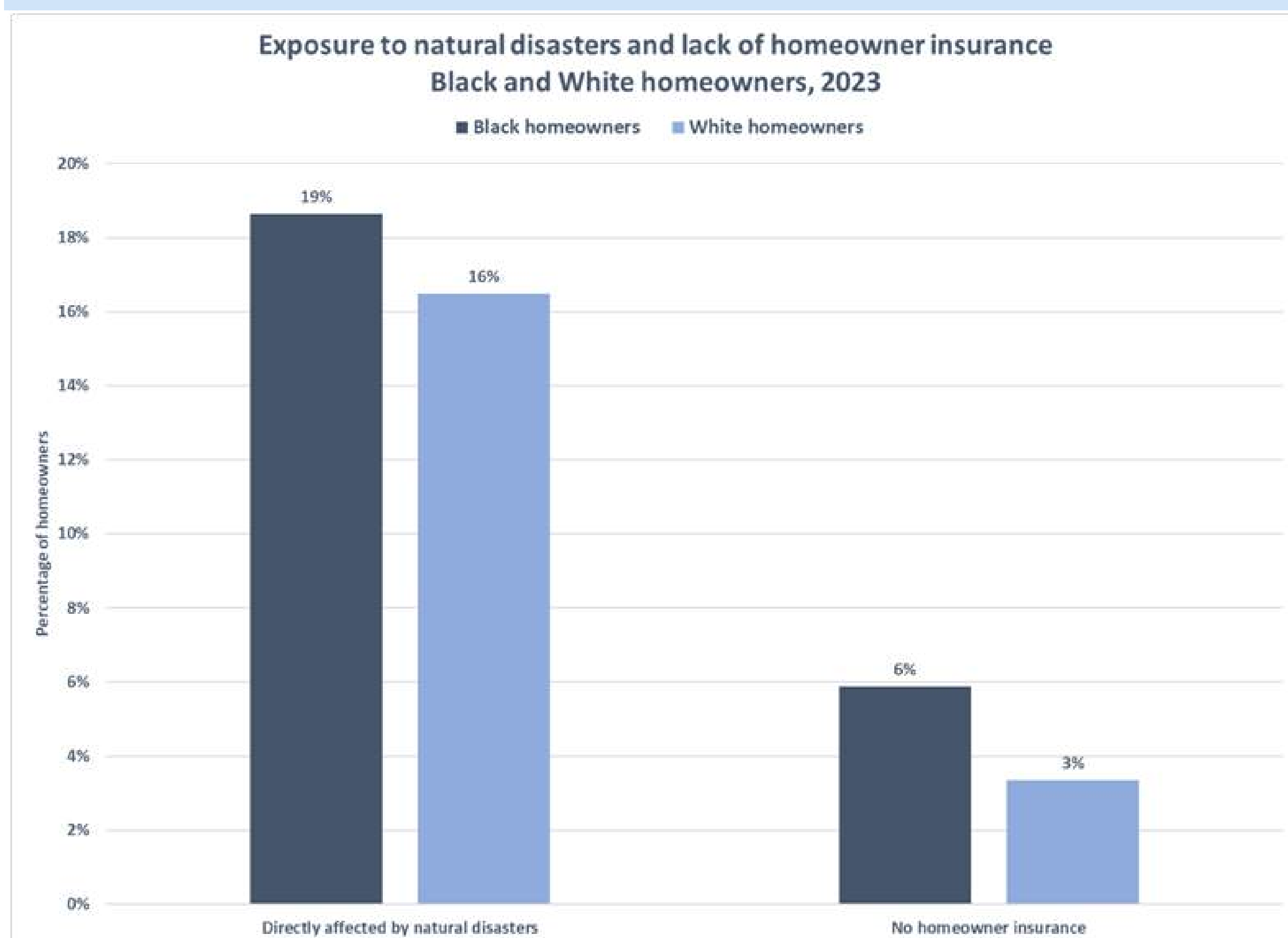
Source: Authors' calculations of data from Pat Howard. "Home insurance prices up 21% as homeowners are left to deal with climate change, turbulent market." Policygenius, 12 Sept. 2023. <https://www.policygenius.com/homeowners-insurance/home-insurance-pricing-report-2023/>; 2023 HMDA; FEMA, National Risk Index, March 2023 (version 1.19.0), available at <https://hazards.fema.gov/nri/data-resources>.

homeowners – roughly 7 percent of U.S. homeowners – did not have homeowner insurance. The escalation of insurance premiums and the withdrawal of home insurance providers from areas vulnerable to climate change effects severely impact low-income and minority communities. These communities often can't afford to live in safer regions. Without the availability of home insurance, securing a mortgage becomes impossible, forcing many homeowners from these communities to resort to state-provided insurance plans that typically offer limited protection. This situation exacerbates the financial strain, as high insurance rates contribute to the disproportionately higher mortgage costs faced by Black homeowners and borrowers, hindering their ability to build equity over time.

The 2023 Survey of Household Economics and Decision-making (SHED) indicates that in 2023, 19 percent of Black homeowners were financially affected by natural disasters and severe weather events compared to 16 percent of White households (Exhibit 51).⁷⁸

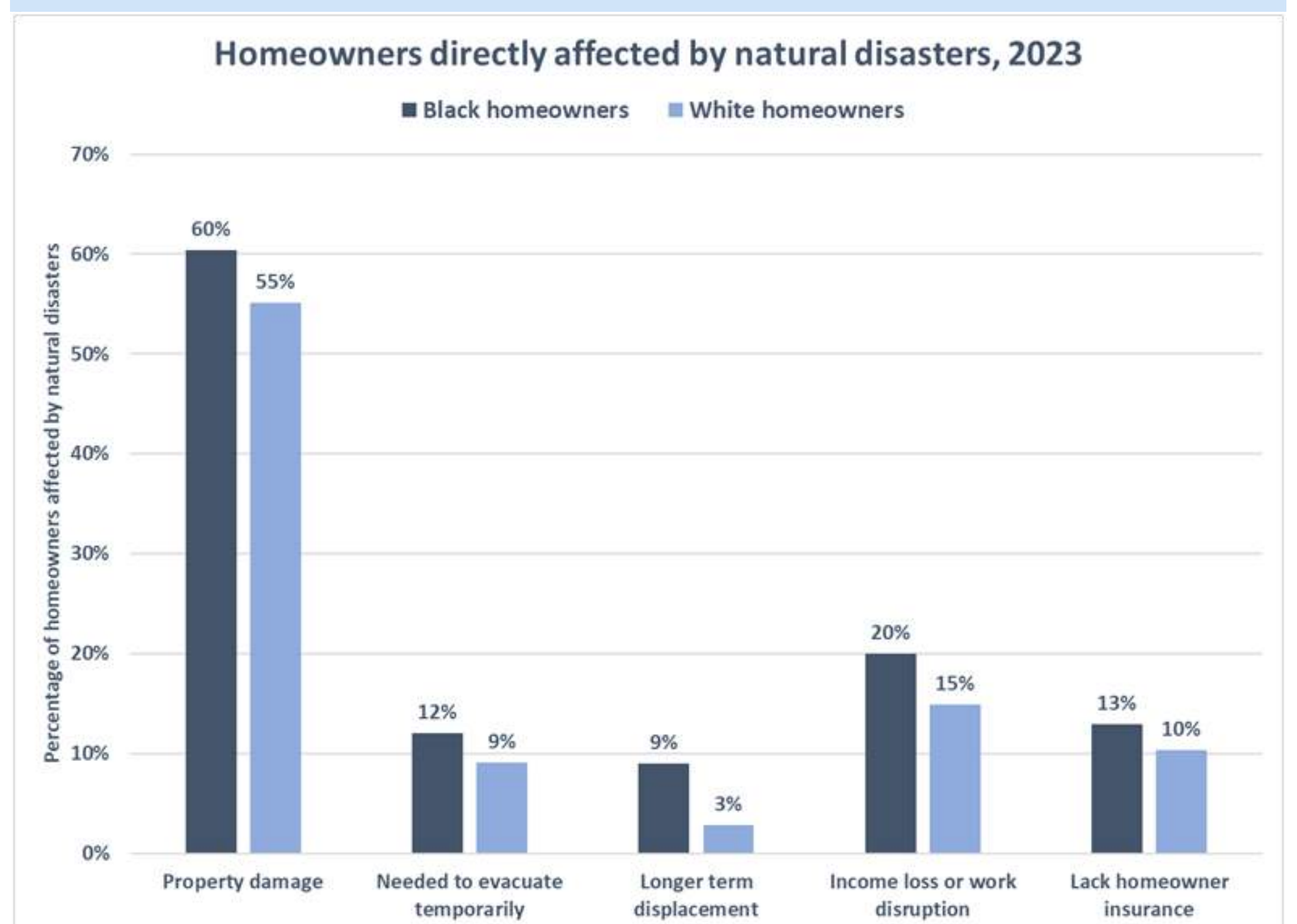
Among those directly affected by natural disasters, 60 percent of Black homeowners experienced property damage, compared to 55 percent of White homeowners (Exhibit 52). Furthermore, 12 percent of Black homeowners needed to evacuate temporarily, and 9 percent experienced longer-term displacement, compared to 9 percent and 3 percent of White homeowners. Thirteen percent of Black homeowners affected by natural disasters in 2023 did not have homeowner insurance, compared to 10 percent of White homeowners.

EXHIBIT 51



Source: Authors' calculations of 2023 Survey of Household Economics and Decisionmaking (SHED). Board of Governors of the Federal Reserve System, 2024. <https://www.federalreserve.gov/consumerscommunities/shed.htm>. Accessed October 2024.

EXHIBIT 52



Source: Authors' calculations of 2023 Survey of Household Economics and Decision-making (SHED). Board of Governors of the Federal Reserve System, 2024. <https://www.federalreserve.gov/consumerscommunities/shed.htm>. Accessed October 2024.

The expectation is that severe weather events driven by climate change will become more frequent in the upcoming years.⁷⁹ It is anticipated that Black homeowners and tenants living in high-risk areas will be disproportionately affected, incurring billions in financial losses.⁸⁰ By the year 2050, it is projected that the 20 percent of neighborhoods with the highest concentration of Black residents will face twice the flood risk compared to the 20 percent of areas with the smallest Black populations.⁸¹

The significantly higher risk from natural disasters faced by Black communities highlights a need for policies that ensure access to affordable and climate-resilient housing. This is crucial for addressing long-standing investment disparities and environmental racism effects. The Biden Administration has made strides toward addressing climate change and its impacts, particularly in low-income and minority communities, by investing in clean energy and promoting climate resilience.

Executive Order 14008, "Tackling the Climate Crisis at Home and Abroad," mandates Federal agencies to prioritize climate resilience. The Justice 40 Initiative, a part of this order, aims for 40% of certain Federal investment benefits to reach disadvantaged communities. Following this directive, financial regulators have updated the Community Reinvestment Act (CRA) to include disaster preparedness and climate resilience. The Federal Housing Finance Agency (FHFA) has also prioritized climate change impacts in its oversight of government-sponsored enterprises (GSEs) and required plans specifically addressing climate change.⁸²

Legislation such as the Bipartisan Infrastructure Law and the Inflation Reduction Act allocates over \$50 billion for enhancing climate resilience and reducing greenhouse gas emissions. However, challenges remain in affordable housing and infrastructure, particularly in minority and previously redlined areas. Executive Order 14096, "Revitalizing Our Nation's Commitment to Environmental Justice for All," signed by President Biden on April 21, 2023, aims to integrate environmental justice into Federal agencies' missions and protect vulnerable communities from climate impact.⁸³

In September 2023, the Administration introduced the National Climate Resilience Framework to develop comprehensive resilience strategies.

⁸⁴This Framework focuses on embedding climate resilience, enhancing the resilience of built environments, mobilizing capital for climate resilience, equipping communities with climate risk information, managing lands and waters sustainably, and supporting communities to become safer, healthier, and economically stronger. It emphasizes the need for resilient building codes and adequate, affordable housing. The Framework marks a step towards equipping Black communities to tackle climate change challenges, underscoring the need for actionable goals and accountability to truly address these critical issues.

The Economy and Housing Market

Economic Growth, Inflation, Wages and Employment

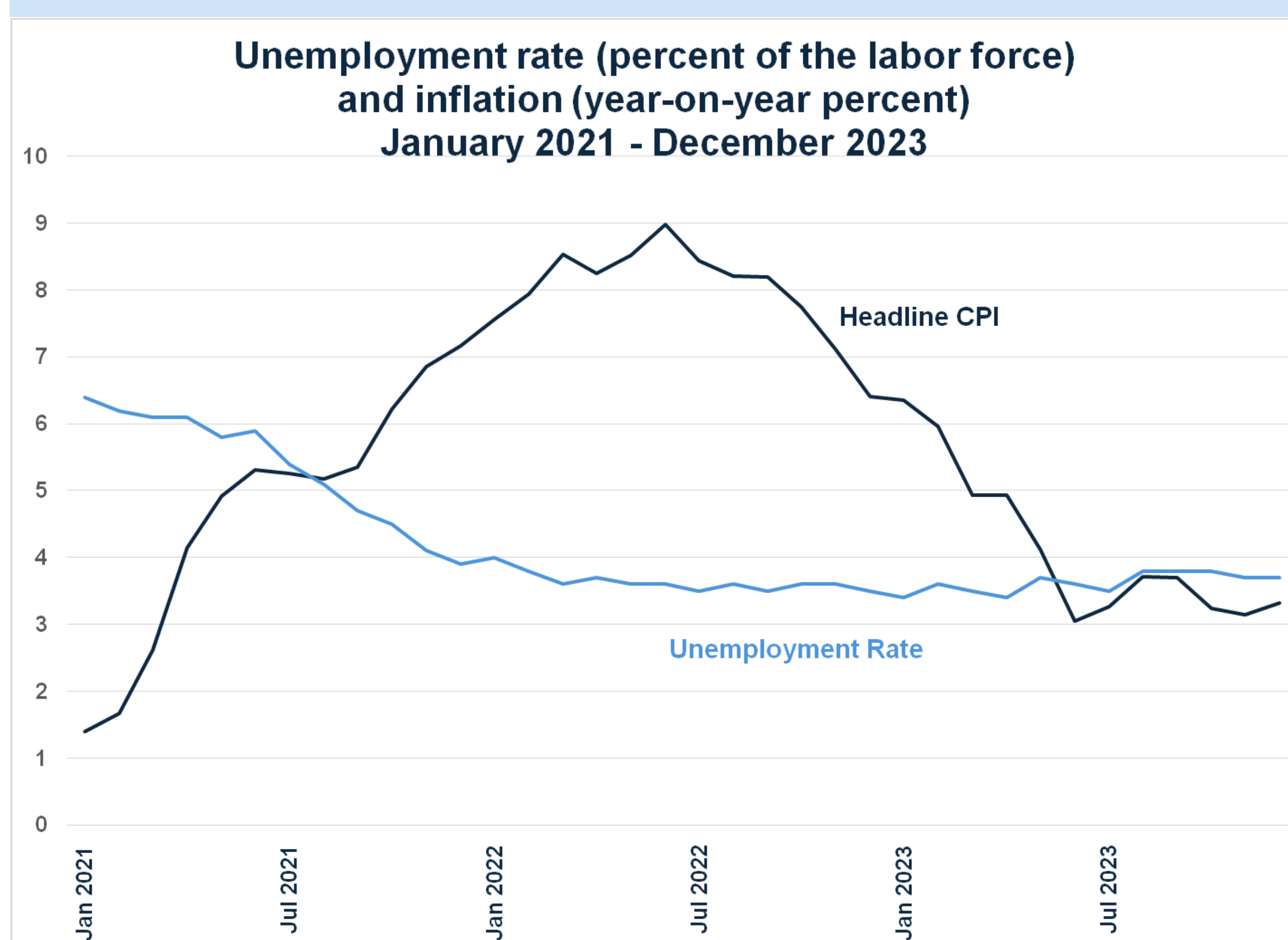
The U.S. economy has remained resilient despite the Federal Reserve's (the Fed) restrictive monetary policy. The Fed began raising the federal funds rate in 2022 in response to a 30-year spike in inflation of 9.1 percent in June of that year.⁸⁵ By July of 2023, inflation had fallen significantly, but the Fed maintained its tight interest rate policy into 2024. The Fed raised interest rates seven times in 2022 and four times in 2023.⁸⁶

Black unemployment was 5.5 percent for the full year 2023 compared to 3.3 percent for Whites.⁸⁷ Although the Black-White unemployment rate gap was wide, it was narrower than its historical norm, where the rate of Black unemployment was twice the rate of White unemployment. Further, in April of last year, Black unemployment reached 4.7 percent, its lowest level recorded by the Bureau of Labor Statistics.⁸⁸ The smallest gap in unemployment rates between Blacks and Whites was also achieved last year narrowing at one point to just 0.7 percentage points.⁸⁹

Gross Domestic Product (GDP) for the full year of 2023 was 3.3 percent, and the economy added 2.7 million jobs.⁹⁰ The continued strength of the U.S. economy over the past two years was unexpected. In December of 2022, economic growth projected by the Blue Chip Economic Forecast, was negative 0.1 percent for the year.⁹¹ The economy continued to grow through the first three quarters of this year, with a 2.8 percent growth rate through September of 2024.⁹²

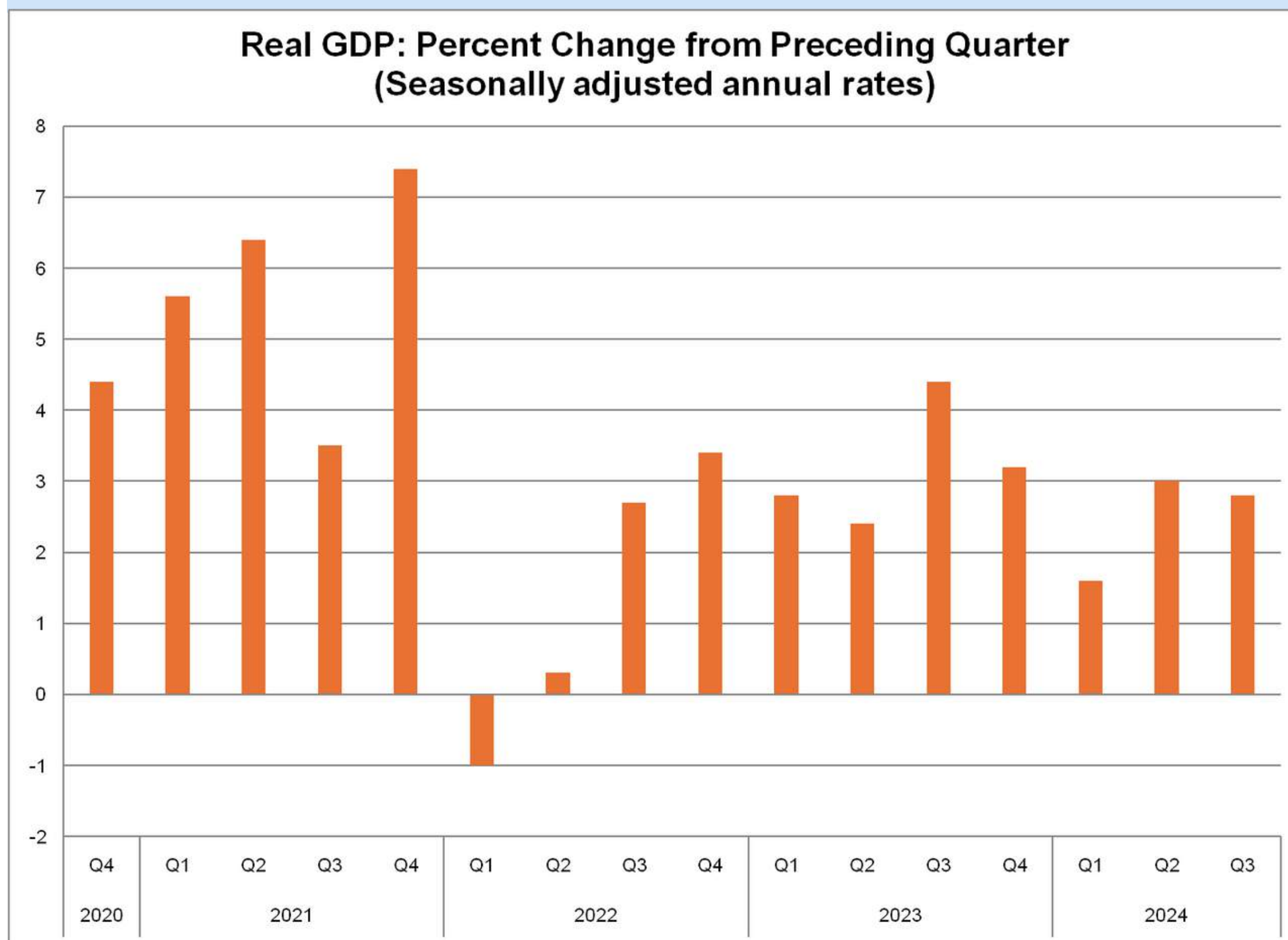
The average quarterly GDP growth was 3.4 percent from 2021 to 2023.⁹³ The combination of steadily improving inflation and prospects of a slowing economy this year contributed to the Fed reversing course and entering a monetary easing period beginning this September. The Fed lowered the federal funds rate by a half-percentage point in September 2024 to a 4.75 to 5 percent range.⁹⁴ As of October 31, inflation had fallen to 2.1 percent, a mere 0.1 percentage point above the Fed's target rate of 2 percent. As a result, the Fed further cuts rates an additional quarter of a point on November 7, 2024.⁹⁵ In fact, even before the most recent inflation data was released, a Reuters poll of 111 economists indicated that additional Fed rate cuts of a quarter of a percentage point each month were anticipated in November and December.⁹⁶

EXHIBIT 53



Source: Bureau of Labor Statistics. Council of Economic Advisors calculations as of December 15, 2023.

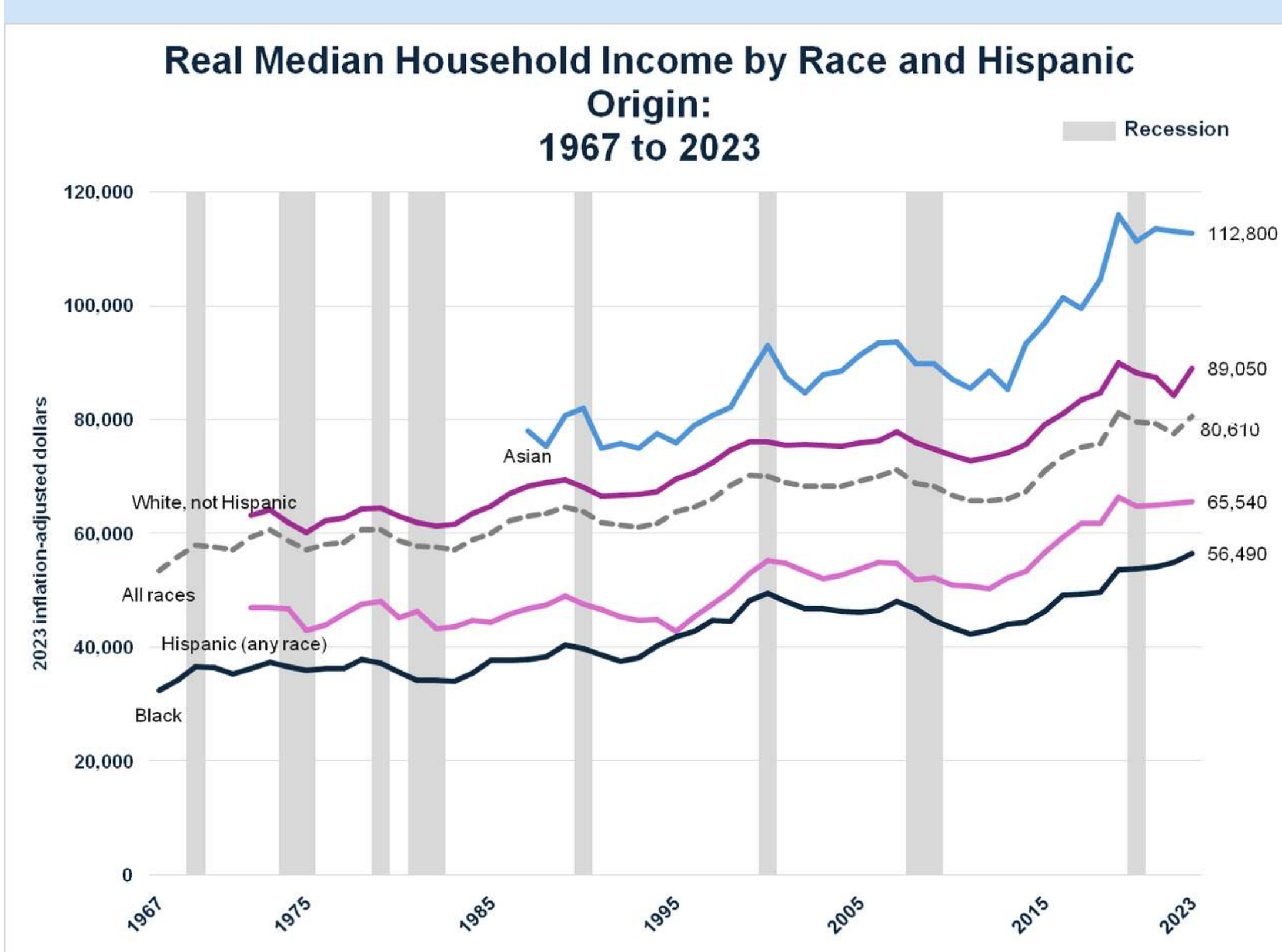
EXHIBIT 54



Source: U.S. Bureau of Economic Analysis. Seasonally adjusted annual rates.

Despite relatively strong employment performance for Blacks last year, median wages between Blacks and Whites increased.⁹⁷ The median wage for Blacks was \$56,490 compared to \$89,050 for Whites.⁹⁸

EXHIBIT 55



U.S. Census Bureau. Current Population Survey, 1968 to 2024. Annual Social and Economic Supplements.

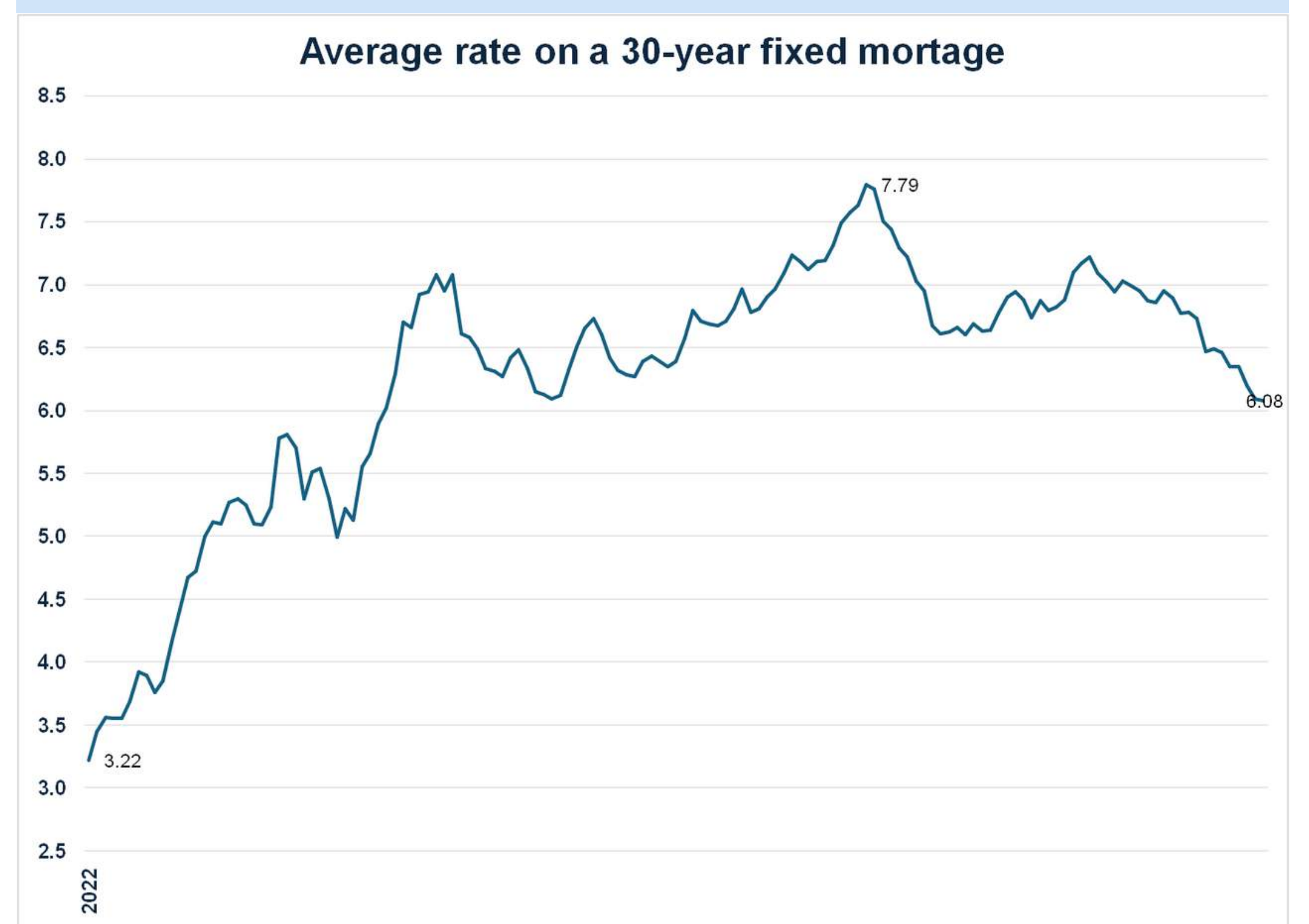
Although inflation has fallen dramatically over the past two years, costs for many necessities, such as groceries and housing remain much higher than they were prior to the pandemic.⁹⁹ Lower-income and Black households, which are disproportionately lower-income, have suffered the most during the past two years of elevated inflation and soaring interest rates.

The Housing Market

Due to a continued lack of supply, housing costs have continued to increase in the face of soaring interest rates. A dramatic and unexpected fall in inflation in the latter part of 2023 suggested the housing market might finally be entering a long-awaited recovery this year. Unfortunately, residential investment fell in the second and third quarters of this year.¹⁰⁰

Rates for 30-year fixed mortgages had been climbing since early January 2022, when they stood at 3.22 percent. The 30-year mortgage peaked at 7.79 percent in November of 2023 before falling through the end of that year. By May of 2024, however, rates had again bounced above 7 percent adding pressure to an already struggling housing market. In September 2024, however, the 30-year fixed rate mortgage rate hit a two-year low, approaching 6 percent, but that has not been enough to bring buyers or sellers back into the market.¹⁰¹

EXHIBIT 56



Source: Freddie Mac data. Cited in Gina Heeb, "Mortgage Rates Decline to Lowest Level in Two Years." Wall Street Journal. September 26, 2024.

Meanwhile, home prices continued to remain high, 47 percent above pre-pandemic levels. The Harvard Joint Center for Housing Studies estimates that as of March of this year, monthly mortgage principal and interest expenses totaled \$2,201, up more than \$852 per month over the previous three years.¹⁰² That amount does not include taxes and insurance which have also been increasing.

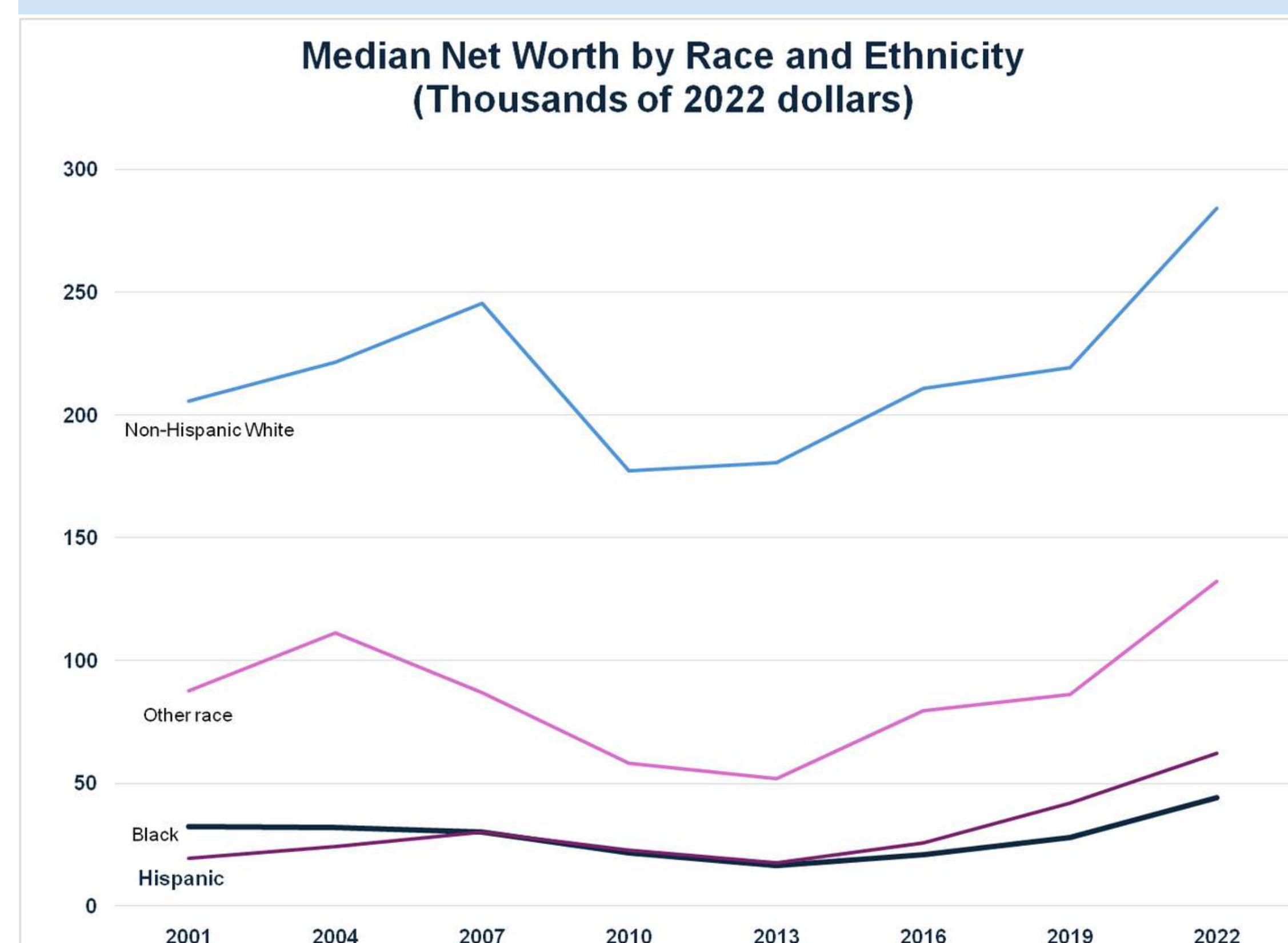
Joint Center researchers estimate that as of the first quarter of this year, a buyer would need an income of more than \$100,000 annually to purchase the median-priced home in nearly half of 179 markets surveyed by the National Association of Realtors. As prices increase, so does the need to bring more money to the table at closing. A 3.5 percent downpayment on the median-priced home of \$389,400 in the first quarter of 2024, would need \$25,300 in cash.¹⁰³

With the price of homes continuing to rise, Black households are increasingly challenged to enter homeownership, even if mortgage interest rates do fall significantly over the coming year.

Given the median income for Blacks last year, of less than \$60,000, the median-priced home today is out of the question for the majority of Black households in most metropolitan areas. Moreover, downpayment is also a major challenge for Black households.

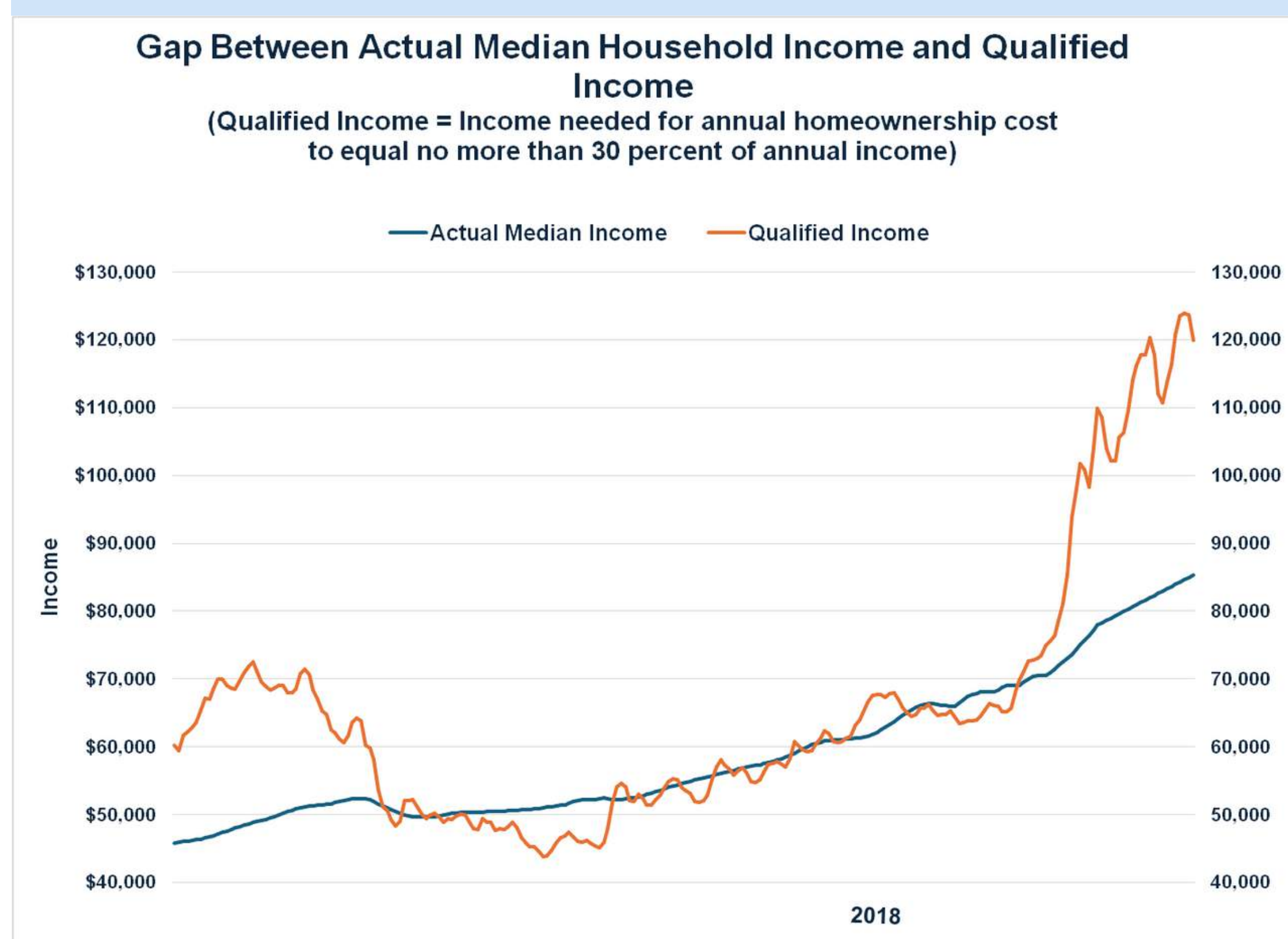
Estimates by the U.S. Department of the Treasury indicate that even in the third income quartile (\$59,000 and \$108,000), the median value of financial assets for Black households was only \$12,000 (compared to \$35,000 for White households).¹⁰⁴ Nearly a quarter of Black households (compared to only 1 of 12 White) households have zero or negative wealth.¹⁰⁵

EXHIBIT 58



Source: 2024 State of the Nation's Housing, Harvard University Joint Center for Housing Studies.

EXHIBIT 57



Source: Federal Reserve Bank of Atlanta, Center for Housing and Policy. <https://www.atlantafed.org/center-for-housing-and-policy/data-and-tools/home-ownership-affordability-monitor>. Note: Qualified income is the income required for annual homeownership costs not to exceed 30 percent of annual income.

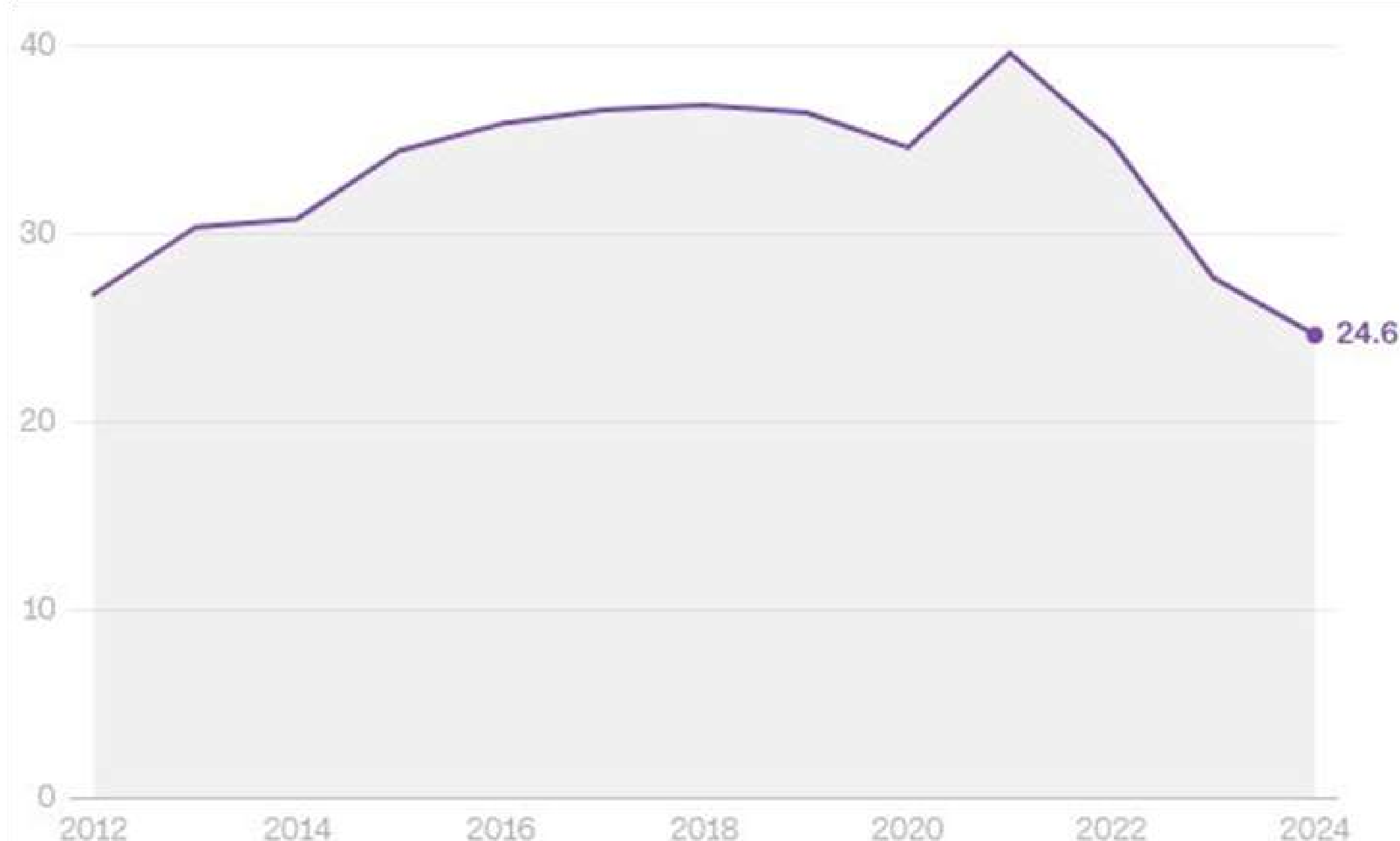
First-time buyers find it particularly difficult to access homeownership. Harvard researchers find that in the first quarter of 2024, only 14.5 percent or 6.6 of renter households have the incomes to afford the median-priced home. That's down from 10.2 million in 2022. They further find that

assuming a 3.5 percent downpayment and 3 percent closing costs, the number of households falls precipitously further, down to only 2.6 million renter households or less than 6 percent.¹⁰⁷

As of August 2024, Redfin estimates that only 2.5 percent of homes in the U.S. changed hands in the first eight months of the year, the lowest turnover rate in three decades!¹⁰⁶ This lackluster housing market represents a continuation of weak home sales for the past two years due to soaring home prices and high interest rates.

EXHIBIT 59

Home turnover is at a record low



Source: Redfin data. Graphic: Samantha Delouya, "A new report illustrates just how stuck the housing market is." CNN.Business. September 30, 2024.

That translates into the sale of only 25 of every 1,000 homes between January and August of this year, down 31 percent for the first nine months of 2019 and an even steeper falloff since the recent peak in home sales during the pandemic. Redfin noted that the slow turnover was due to a lack of homes on the market during the first part of the year; just 32 of every 1,000 homes were listed for sale, the lowest share since at least 2012.¹⁰⁸

The shortage of homes on the market has helped keep home prices high despite stubbornly high mortgage rates. Further, the lack of homes placed on the market for sale is compounded by a continued lack of housing production. According to Zillow, the U.S. is short 4.5 million units.

As discussed in the 2024 SHIBA report, the under-production of housing began following the 2008 housing crisis and has not improved. The negative impacts resulting from a lack of adequate housing production have been exacerbated by the largest generation in U.S. history, millennials, reaching their prime homebuying age at the onset of the pandemic in 2020!¹⁰⁹

The lack of housing shortage extends to rental units which has caused rental affordability also to worsen. The result is that many households are so cost-burdened that they are unable to save for downpayment even if affordable owner-occupied units were available.

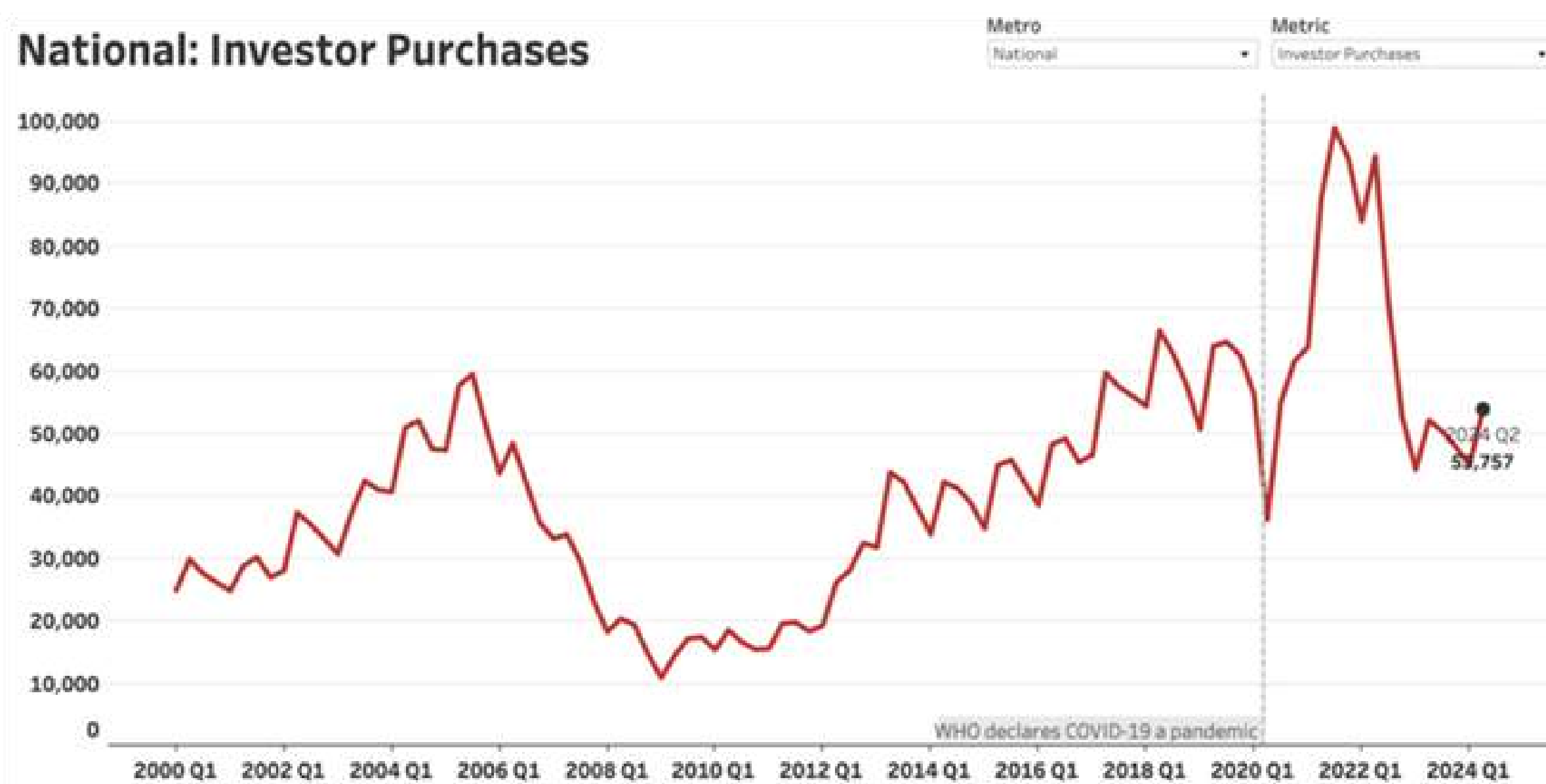
Institutional Investors in the Single-Family Housing Market

As discussed in the 2023 SHIBA report, investors have always been a part of the housing market. Their role, however, has ballooned since the 2008 housing crisis, fueled by millions of foreclosed properties and distressed loan assets that were available for sale at bargain basement prices.

Investors' share of the single-family home market grew through 2016, slowed between 2017 and 2019, and ignited again during the 2020-2021 pandemic. According to Redfin, investor purchases spiked in early-to-mid 2022, plunged last year by 50 percent, but turned positive again in the first quarter of 2024.

EXHIBIT 60

Investor Purchases



Source: Lily Katz. "Investor Home Purchases Post Biggest Increase in Two Years." Redfin New. August 15, 2024.

With the real estate market improving, Redfin estimates investors purchased 1 in 6 homes (or 16 percent) that sold in the second quarter of this year, with single-family homes accounting for nearly 70 percent of purchases.¹⁰ Investors continued to disproportionately buy lower-priced homes, accounting for 45 percent of investor purchases in the second quarter. That share accounted for nearly 25 percent of all lower-cost homes purchased in that quarter.

Investor purchases of lower-cost housing are a significant deterrent to increasing Black homeownership.

Blacks disproportionately purchase lower-cost homes. Further, investors can pay cash for homes, which eliminate the need for an appraisal or inspection, which allows closing to occur quickly.

Institutional investors have played a major role in the growth of investor-owned single-family homes. According to the Government Accountability Office, in 2011, no single institutional investor owned more than 1,000 single-family units. By 2022, the five largest institutional investors collectively owned 300,000 single-family homes. Institutional investors remain a small share of the total single-family home market.¹¹ However, the concentration of these investors in lower-cost single-family home purchases and in specific markets with large concentrations of Black residents, make them a particular obstacle to increasing Black homeownership.

According to the GAO, "institutional investors own 25% of Atlanta, GA's single-family rental housing market, 21% of Jacksonville, FL's, 18% of Charlotte, NC's, and 15% of Tampa, FL's single-family rental market."¹²

EXHIBIT 61

U.S. Metropolitan Areas with Highest Rates of Investor Home Purchases

Moving average over four quarters | Q2 2023–Q1 2024



Source: Moody's Analytics. Graphic in Ana Teresa Solá. "Investor home purchases jump for the first time in two years. Here's what that means for buyers." CNBC. June 4, 2024.

Recommendations

NAREB Homeownership Partnership Initiatives, National Policy Priorities

As discussed above, NAREB released a Research Black Paper last month on appraisal bias against Black home buyers and homes in Black neighborhoods. Because Appraisal bias is a critical issue, this year's SHIBA report reiterates the recommendations in NAREB's Appraisal Bias in Black and White report and expands on its recommendations and policy priorities advanced in the 2023 SHIBA report.

NAREB Partnership Initiatives

1. The NAREB Developers Academy. This initiative seeks to be a transformative effort that increases Black participation in the real estate development industry by providing aspiring Black professionals with the skills, knowledge, and opportunities to become successful housing and community development professionals. The initiative's three key goals are to foster economic equity, increase Black homeownership rates, and revitalize underserved communities. The program offers a certification certificate jointly from NAREB and the Urban Developers Council. NAREB is further partnering with the African American Mayors Association to identify high-priority cities that will be a focus for development activities. The program is open to all NAREB members across the nation and will consist of 13 education and training modules covering issues related to pre-development activities, the development process, development risks, marketing research, development financing, sustainable development considerations and techniques, and land development in underserved areas. Other key partners for the NAREB Black Developers



Academy include Enterprise Community Partners and the Wells Fargo Foundation.

2. NAREB partnership with the Housing Preservation Exchange (HPE). The HPE is a nonprofit organization that works in alliance with federal, state, and local agencies, as well as nonprofit and philanthropic institutions to sustain and expand homeownership. It was initially launched in 2012 in response to the extraordinary damage caused in communities of color resulting from the housing market collapse of 2008. HPE is headed by former Washington DC Mayor, Sharon Pratt. The core of HPE's activities is the purchase of distressed properties from FHA with the goals of (1) Helping non-performing loans to return to performing status and maintain homeownership, (2) make properties available for homeownership that cannot be maintained by their previous owners, and (3) stabilize neighborhoods by avoiding foreclosures and managing the transfer of distressed assets back to owner-occupancy. Since 2018, HPE has participated in six distressed sales auctions and has received 726 assets. HPP has committed to allocating as much as 40 of assets it receives from FHA auctions to NAREB for processing.

3. **NAREB Building Black Wealth Tour.** Homeownership begins with preparing financially to become homeowners and then applying for a mortgage. There are potentially millions of mortgage-ready Black households in the U.S., meaning they have the financial means necessary to purchase a home, but they are either not aware of their financial homeownership potential or unfamiliar with the process of becoming a homeowner. To address this lack of information, NAREB has committed to pursue a more than 100 cities tour that will provide mortgage ready households with the information and resources they need to successfully achieve the American Dream of homeownership.
2. **Expand Section 184 to Include Black Mortgage Borrowers.** Currently, HUD operates a Section 184 program to provide homeownership opportunities to Native Americans and Alaskan Native households, tribes, or housing entities. The program offers downpayments of 1.25 percent for loans that are less than \$50,000 and downpayments of 2.25 percent for loans that are \$50,000 or greater. Mortgage insurance is only .25 percent for borrowers with less than 22 percent equity. There is no minimum credit score, therefore credit scores are not considered in determining mortgage borrower interest rates. All borrowers are, however, assessed to ensure they are creditworthy for a mortgage loan.

NAREB National Policy Priorities

1. **Enact a National Homeownership Tax Credit Program.** The National Low Income Tax Credit produces new and rehabilitated, affordable rental housing in underserved urban and rural communities and in high-cost suburban areas across the nation. LIHTC is responsible for roughly 90 percent of all affordable rental housing built in the U.S. Between 2014 and 2018, the program is estimated to have created or preserved nearly 40,000 homes and attracted more than \$7.7 billion in investments for lower-income communities across the nation.

NAREB is a strong supporter of LIHTC. The organization feels that federal support for affordable housing should also support ownership of properties, rather than exclusively renting, since ownership allows for the accumulation of wealth that is desperately needed in the Black community. Rather than taking funding from current rental initiatives, NAREB proposes the program should be greatly enhanced with the addition of a sizable owner-occupied program component. Because the tax credit has the capacity to lower the cost of units, downpayments for tax credit properties could be lower than on market rate homes and the program could help to level the playing field between first-time buyers and investors, particularly for the lower end of the market.

NAREB seeks to make available to Black borrowers, loans from HUD that carry the same mortgage loan terms as those available in the Section 184 program. NAREB has titled this program the “First Choice Mortgage.” The rationale for extending the program to Blacks is obvious; Black households have extremely low levels of homeownership and wealth as a direct result of decades of discriminatory practices that were institutionalized and mandated by federal agencies. Further, this program already exists; HUD staff have decades of experience in managing the program. A Section 184 program for Blacks would greatly lower the cost of financing a home, which would be particularly useful in this period when homeownership affordability reached record lows.



Second, the fact that the mortgage industry operated efficiently for more than half a century without LLPAs demonstrates that loan-level pricing does not serve as a legitimate business necessity for the GSEs. Pooling risk would not present greater safety and soundness concerns for the federal housing agencies. As a result, LLPAs meet the legal definition of adverse impact discrimination. The Federal Housing Finance Agency (FHFA) has recently revised the capital risk structure for the GSEs, resulting in substantially lower fees, particularly for borrowers with high loan-to-value ratios. This is an important step forward. FHFA should complete this movement toward a more equitable housing finance system by eliminating LLPAs.

3. **Eliminate Loan Level Price Adjusters.** Prior to the housing collapse in 2008, Fannie Mae and Freddie Mac charged all borrowers, regardless of their credit risk profile, roughly the same amount in mortgage guarantee fees. Borrower risk was assessed at the individual loan level, but loans were pooled, and the average cost of the pooled loans' risk was charged for mortgage credit. Loan-level pricing was instituted to assist the GSEs in recovering from exceptional losses they had sustained during the financial crisis. LLPAs required borrowers with lower credit scores and downpayments to pay substantially more for mortgage credit. The burden of LLPAs fell disproportionately on Blacks because Blacks, on average, have lower credit scores, lower incomes, and fewer savings for downpayment.

However, the reason Blacks have lower credit scores, lower incomes, and fewer savings than White households is due to decades of legalized discrimination by the federal government in the housing market. As a result, LLPAs compound the negative effects of a history of blatant, federally enforced, housing discrimination.

4. **Provide Student Loan Debt Relief.** Student debt is a major impediment for Black homeownership. Blacks are more likely than other demographic groups to be burdened by student debt; on average Blacks have higher levels of student debt, are more likely to have financial crisis after graduation, and are the only student loan borrower group to experience an increase in their student loan debt, above its initial loan balance, years after graduation. Student loan debt is particularly burdensome for Black females, who also happen to be the largest cohort of Black home loan applicants. Solving the student loan crisis is not simple, however, because it impacts millions of borrowers beyond just Blacks. Total outstanding student debt exceeds \$1.6 trillion.

NAREB supports reducing the repayment of student loan debt from 10 percent of a borrower's annual discretionary income to five percent. NAREB feels this change is reasonable and should be instituted with minimal impact on the federal budget. Other changes that could help financially vulnerable

borrowers is to ensure that student loan balances don't increase after student leave college, raising the amount of income that is considered non-discretionary so that it is not included in student loan repayment calculations, and forgiving loan balances after 10 years rather than 20 which is current practice.

Regulatory improvements that should be made include implementing the income-driven repayment (IDR) and Public Service Loan Forgiveness (PSLF) programs. The income-driven repayment (IDR) plan adjusts monthly student loan repayments based on income and family size. The Public Service Loan Forgiveness (PSLF) program waives the remaining balance of federal direct student loans after 120 qualifying payments have been made while working full-time for a qualified public service employer. NAREB looks forward to working with the White House, Congress, federal regulators, and educational institutions to find meaningful ways to address the crisis of student loan debt among the nation's young adults.

Ending Appraisal Bias Against Black Borrowers and Communities

1. The PAVE task force, discussed above, views broadening consumer education regarding appraisal bias and the safeguards against it to be an important priority. This goal can be achieved by enhancing the procedures for consumers to challenge unfair appraisals and launching awareness campaigns to inform them of their rights. Such campaigns should be geographically targeted, particularly in neighborhoods attracting Black homebuyers and in metropolitan housing markets where racial appraisal gaps are widening. In addition, consumers must be educated about their rights. Homebuyers and homeowners can ask for a lender to reconsider a home valuation. This process is often referred to as a "reconsideration of value" or "ROV." Borrowers involved in a home purchase or refinance can point out errors and provide evidence that the appraisal was influenced by bias.



Make the appraisal profession more accessible and diverse. Various measures are already being implemented by the Appraiser Qualifications Board (AQB), which sets appraisers' educational and certification standards. The AQB has endorsed a computer-based approach to alleviate the challenges aspiring appraisers face in completing the requisite apprenticeship hours under a licensed appraiser's supervision. In particular, the AQB has decided to make education on fair housing laws a mandatory part of the curriculum by 2026. Concurrently, the National Association of Real Estate Brokers is initiating a collaboration with HUD to provide housing counselors with training and workshops on combating appraisal bias and housing discrimination.

2. The National Society of Real Estate Appraisers (NSREA) and NAREB have formed a transformative partnership aimed at reshaping the landscape of appraisal education and training in the United States. NSREA, established in 1956 as the oldest affiliate of NAREB, has been at the forefront of providing high-quality, inclusive appraisal



education. The NSREA-NAREB partnership has introduced the Black Appraisers Program (BAP), an initiative designed to confront and mitigate the detrimental impacts of appraisal bias in the real estate industry. The Black Appraisers program aims to increase the representation of Black professionals in the appraisal industry, advocate for fair appraisal practices, and enhance awareness of appraisal bias. The initiative will form partnerships with and seek to attract participants from the military veterans' community and Historically Black Colleges and Universities (HBCUs). Appraisal mentorships and apprenticeships will be a core aspect of recruitment and training for this initiative.

3. Appraisals should be calibrated with climate risk data, especially in areas at high risk of climate-related disasters where communities of color continue to be disproportionately disadvantaged. As this report highlights, homes tend to be overvalued in neighborhoods at high risk of climate-related disasters. Updated granular climate risk data and broader climate risk disclosure laws should assist the appraisal industry in more accurately pricing the costs

of climate-related risks into home values to prevent future financial losses among already disadvantaged homeowners of color.

4. Enhance UAD aggregate statistics by including contract prices and the borrower's race/ethnicity. This study is limited by the absence of such data points. Although it is possible to estimate or approximate sales prices using third-party sources, including contract prices in the UAD aggregate statistics would allow for more robust analyses in the future. Further, as this research demonstrates, borrower race/ethnicity is critical to understanding appraisal bias. However, the UAD aggregate statistics at the census tract level do not include that information. The borrower's race and ethnicity are available in the UAD Appraisal Level Public File, which provides individual-level detailed property and borrower/seller information for a sample of appraisal records for home sales and refinances. This research, like previous studies using UAD aggregate statistics, focuses on census tracts as the unit of analysis. Therefore, this study is limited by the availability of detailed data at that geographic level. As in the case of HMDA data, borrower race/ethnicity is a crucial variable in examining racial appraisal bias. In fact, HMDA data was used in this study as a proxy for the race/ethnicity of borrowers.¹¹³

Conclusion

As pointed out in numerous previous NAREB reports, the current housing finance system has its roots in the 1934 establishment of the Federal Housing Administration. Since that time, the geographic landscape and demographic composition of the U.S. population has altered greatly.

Although the legislators who worked to enact the housing finance system we have today were extremely discriminatory in precluding access for Black households, the genius of their work created the vibrant White middle class that exists today. Those leaders were visionaries; America needs that type of visionary leadership today.

If the type of housing leadership that was provided 90 years ago were presented today, millions more Americans would be able to build greater wealth, be more firmly invested in their communities, and achieve the American dream of homeownership.



End Notes

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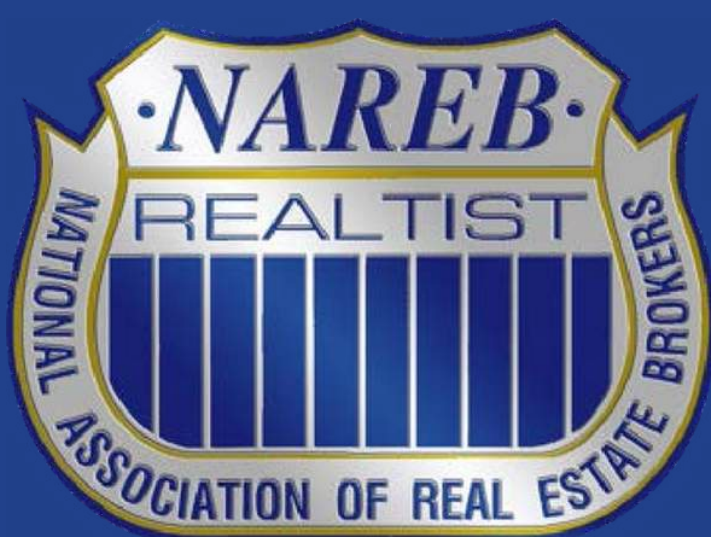
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Appendix

Detailed Tabulations

2024 State of Housing in Black America

National Leadership is Essential to Increase
Black Homeownership



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