



**ROY WILKINS CENTER FOR HUMAN RELATIONS AND SOCIAL JUSTICE**

**A LEADING RESEARCH CENTER DEDICATED TO FINDING RACIAL AND ETHNIC INEQUALITY SOLUTIONS**

# **RACIAL DISPARITIES IN HOME OWNERSHIP AND MORTGAGE LENDING DISCRIMINATION**

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Institute**

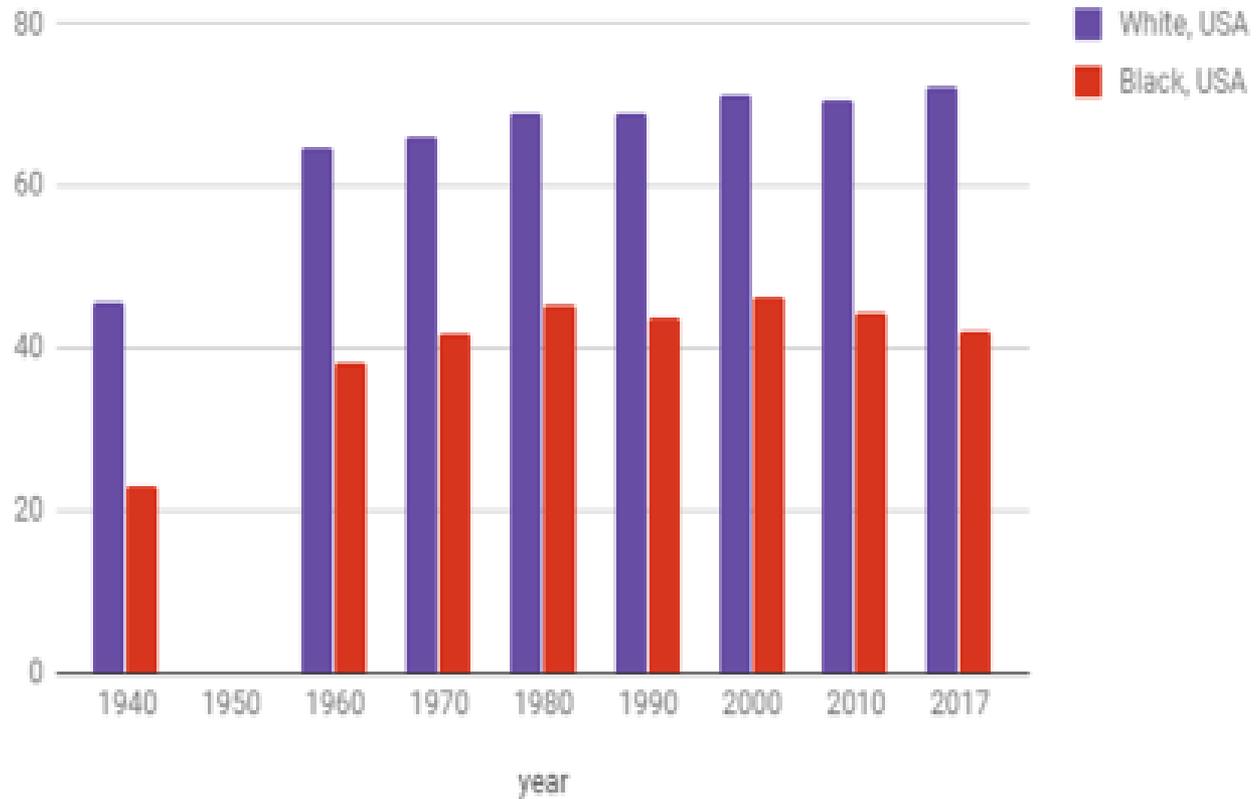
**Thursday, October 26, 2017**

# Summary

- Wide Racial Disparities in Homeownership in Minnesota
- Non-Trivial Role of Lending Disparities
- Need for More Aggressive Enforcement of ECOA

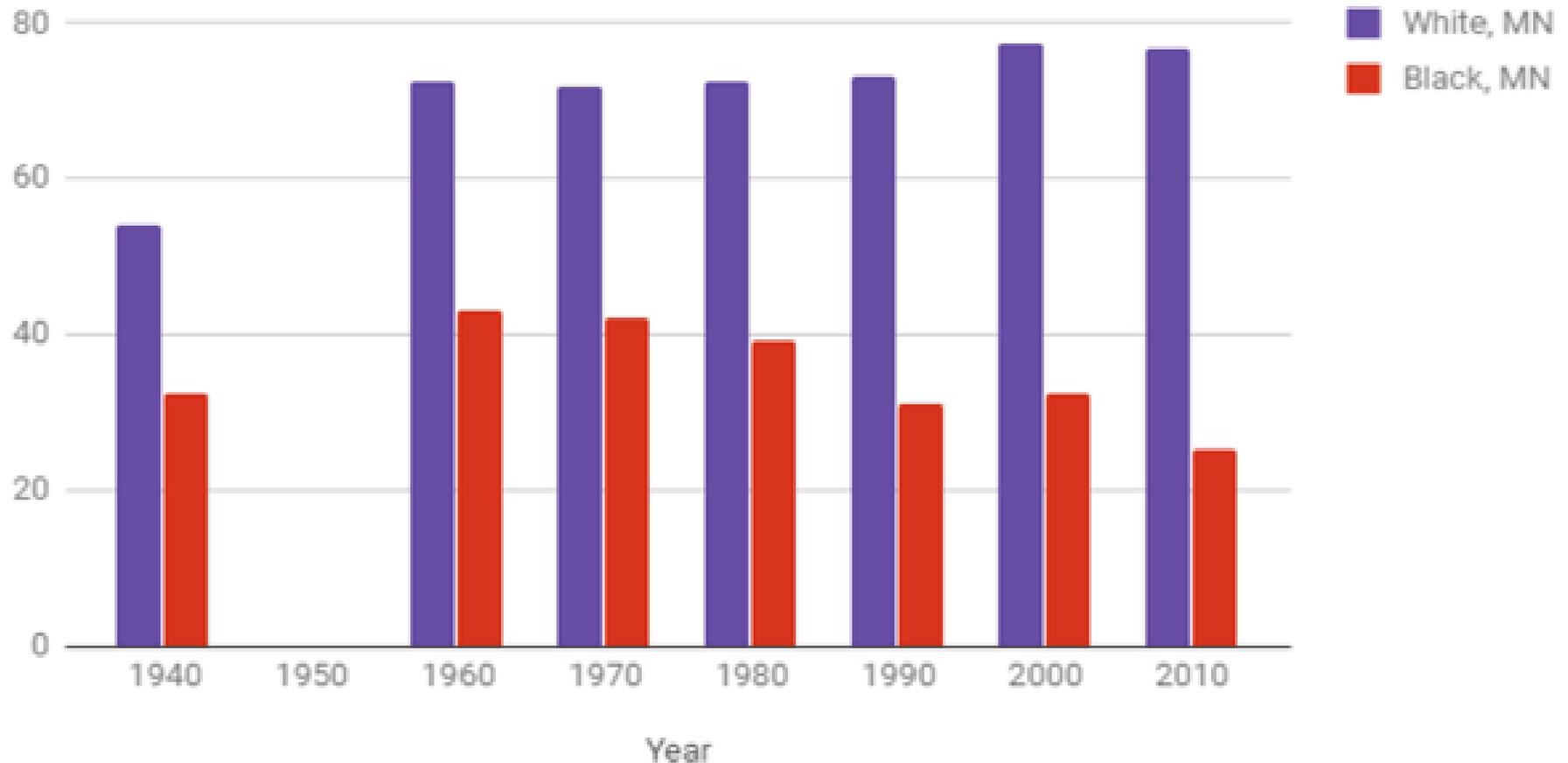
# Home Ownership Disparities Larger in Minnesota than USA

## Black vs White Home Ownership, USA



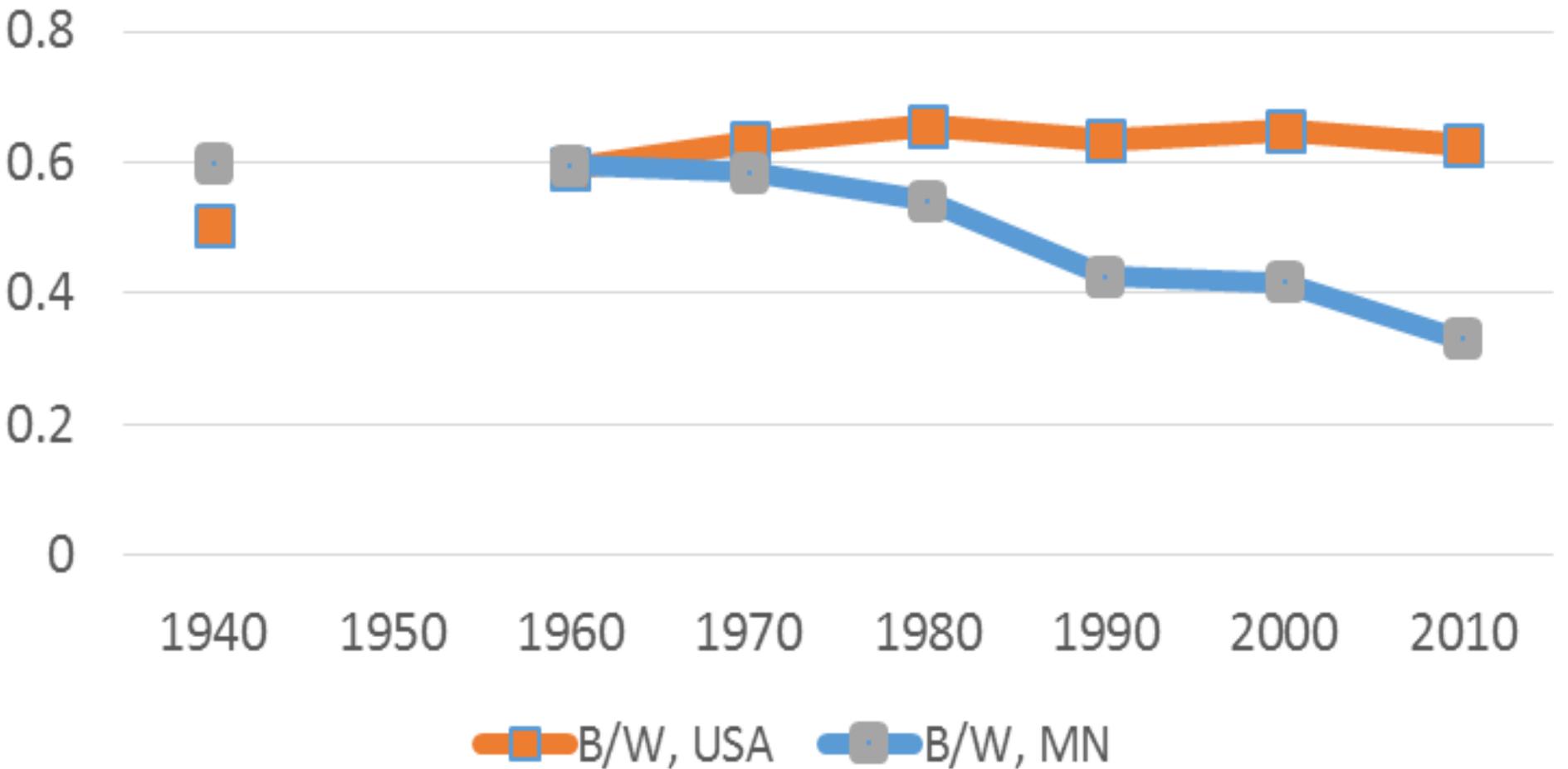
	1940	1950	1960	1970	1980	1990	2000	2010	2017
White	45.73		64.87	66.07	68.99	69.06	71.3	70.69	72.2
Black	22.99		38.19	41.78	45.35	43.86	46.3	44.31	42.3

# Black vs White Home Ownership, MN



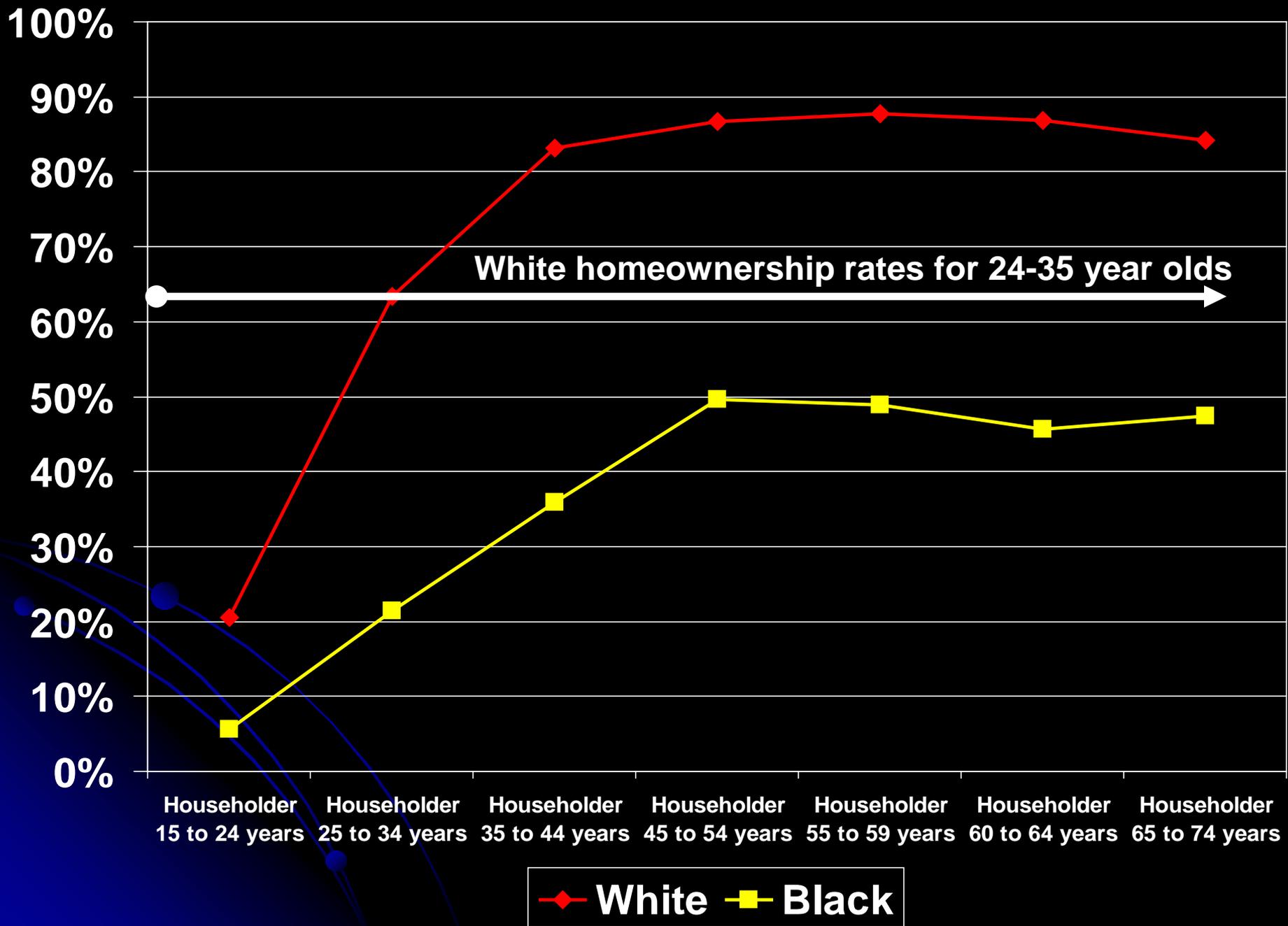
	1940	1960	1970	1980	1990	2000	2010
White	54.1	72.39	71.92	72.59	73.22	77.49	76.85
Black	32.35	43.06	42	39.29	31.08	32.35	25.47

# B/W Ratio of Homeownership Rates 1940-2010, US vs MN



Home Ownership Rates for  
Young Whites are higher than  
Home Ownership Rates for  
African Americans of All Ages





# Low-Incomes and Low-Income Segregated Tracts

- Low-income whites have home ownership rates **five times** that of low-income blacks
- Whites living in low-income white tracts (95% or more white) have home ownership rates that are **three times** that of blacks living in low-income black tracts

		Low Income White Census Tracts	Non-Low Income White Census Tracts	Low Income Black Census Tracts	Non-Low Income Black Census Tracts
<b>All Income Levels 704 Census Tracts</b>	Black Homeownership Rate	0.12	0.30	0.18	0.43
	White Homeownership Rate	0.33	0.78	0.65	0.82
		58 census tracts	14 census tracts	303 census tracts	280 Census Tracts
<b>Low Income Level 93 Census Tracts</b>	Black Homeownership Rate	0.12	0.19	0.14	0.38
	White Homeownership Rate	0.33	0.54	0.40	0.59
		57 census tracts	36 census tracts	91 census tracts	3 census tracts
<b>Metro Low Income Black Homeownership Rate</b>		.10			
<b>Metro Low Income White Homeownership Rate</b>		.53			

# Low-Income Only Explains a Small Part of the Homeownership Disparity

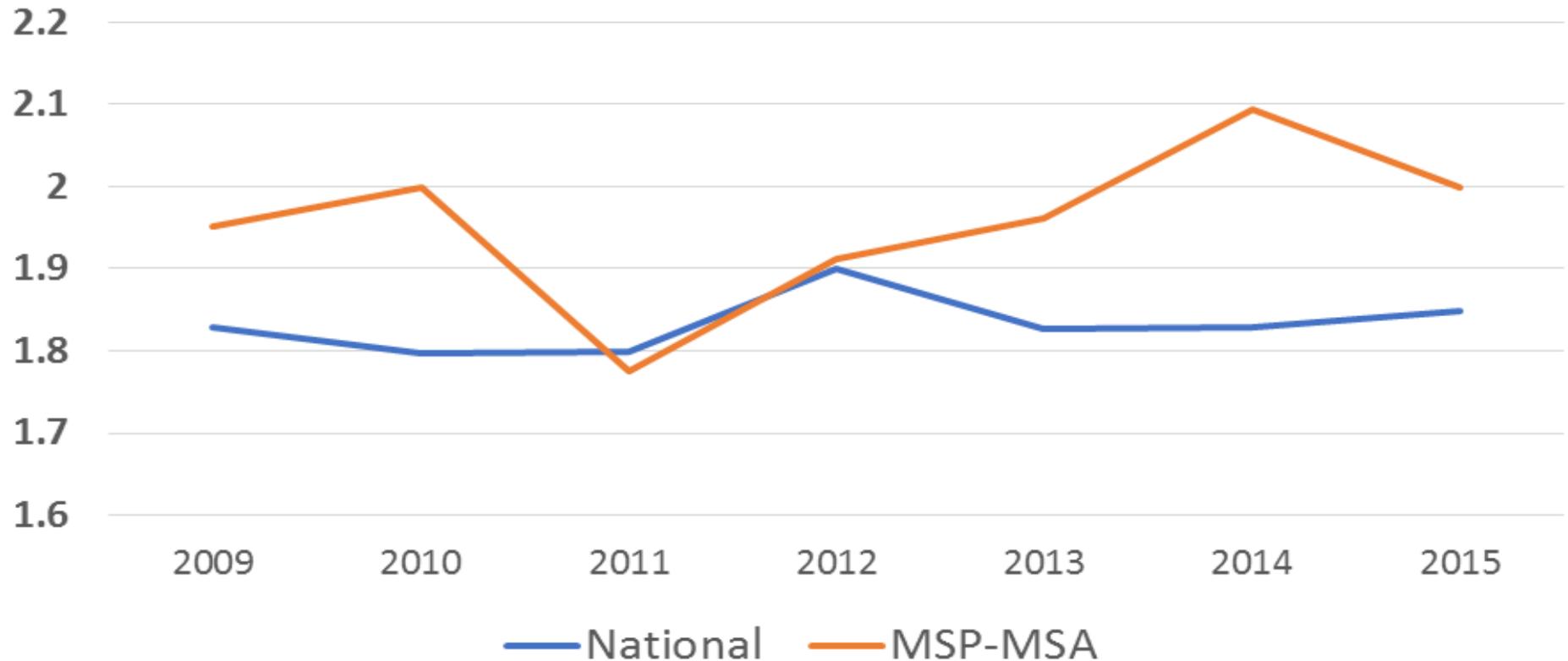
- Low-income whites are five times more likely than low-income blacks to own their own homes
- Home ownership rates among whites in predominantly black neighborhoods are almost twice the homeownership rates of blacks in those neighborhoods
- In low-income white census tracts blacks less likely to own homes than whites

# LENDING DISPARITIES



# Disparities Larger in Minnesota than USA

Relative Loan Denial Rate Ratio (B/W)



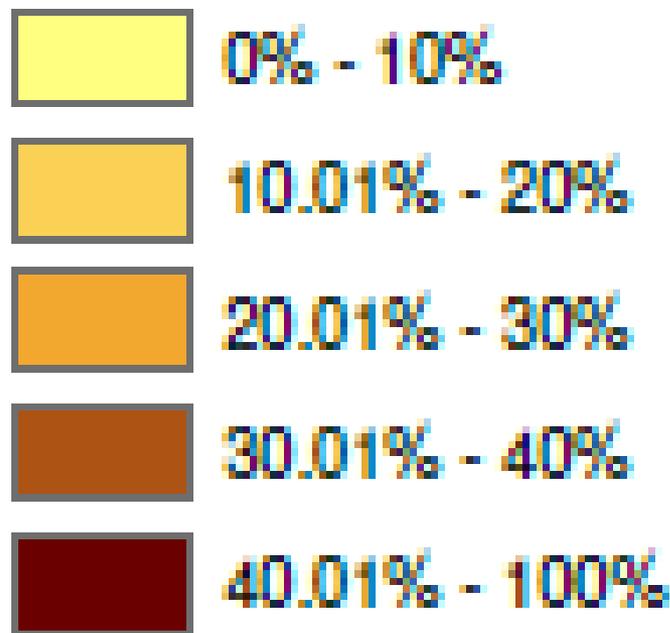
# Loan Denial Analysis – Twin Cities

- HMDA Data 2008-2013
  - 1,181,231 completed applications
  - 413 to 557 lenders (excludes lenders with less than 30 applications)
- 50 Largest Lenders Account for 80% of All Home Mortgage Loans
- 20 Largest Lenders Account for 70% of All Home Mortgage Loans

# Legend

## Minority Denial Rate

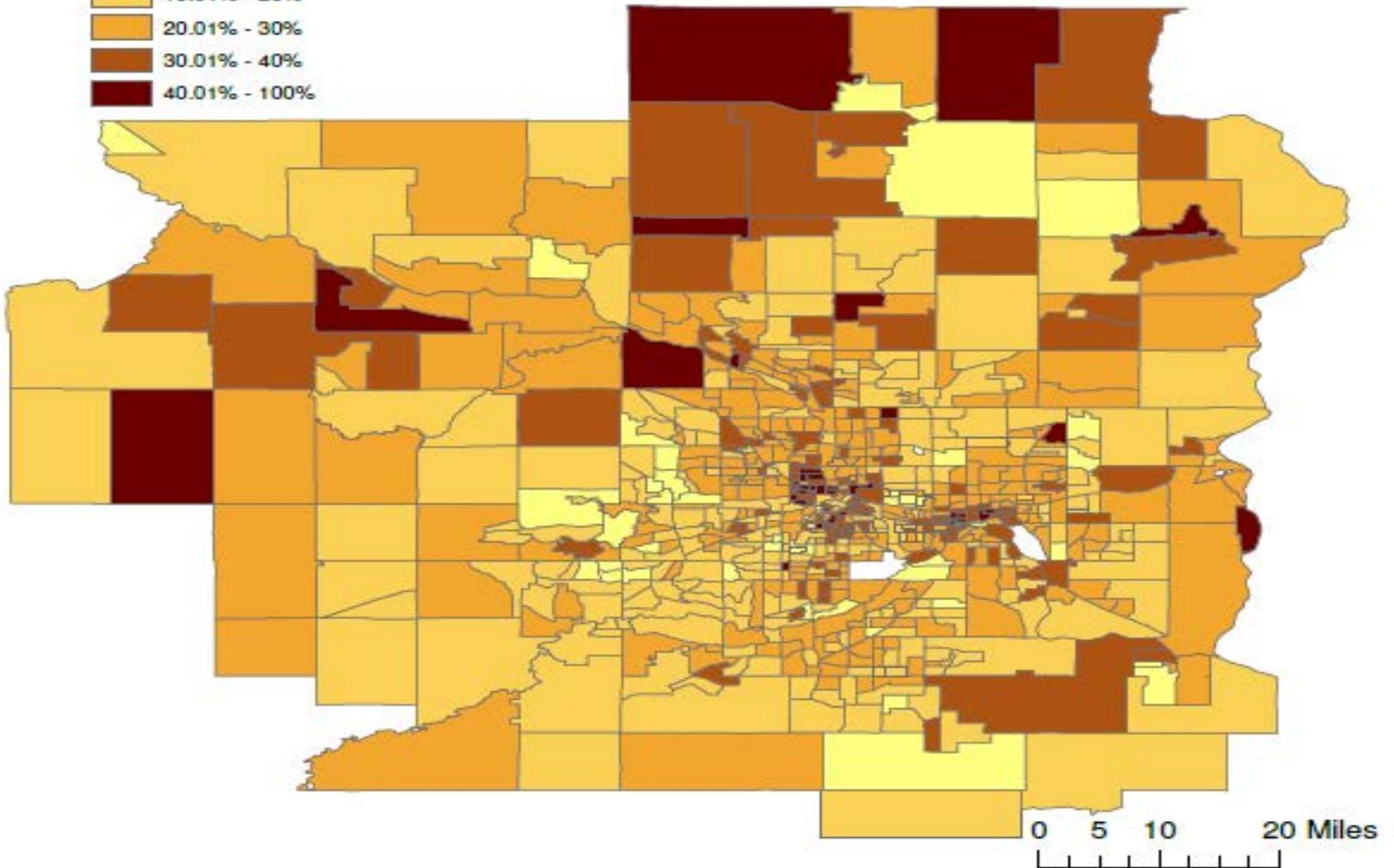
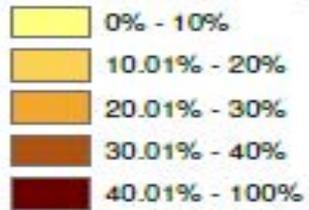
$\text{minority\_denial\_apps} / \text{minority\_apps}$



## Legend

### Minority Denial Rate

$\text{minority\_denial\_apps} / \text{minority\_apps}$



# Legend

## Non-Minority Denial Rate

NM\_denial\_apps / NM\_apps

- 5.56% - 10%
- 10.01% - 20%
- 20.01% - 30%
- 30.01% - 40%
- 40.01% - 100%

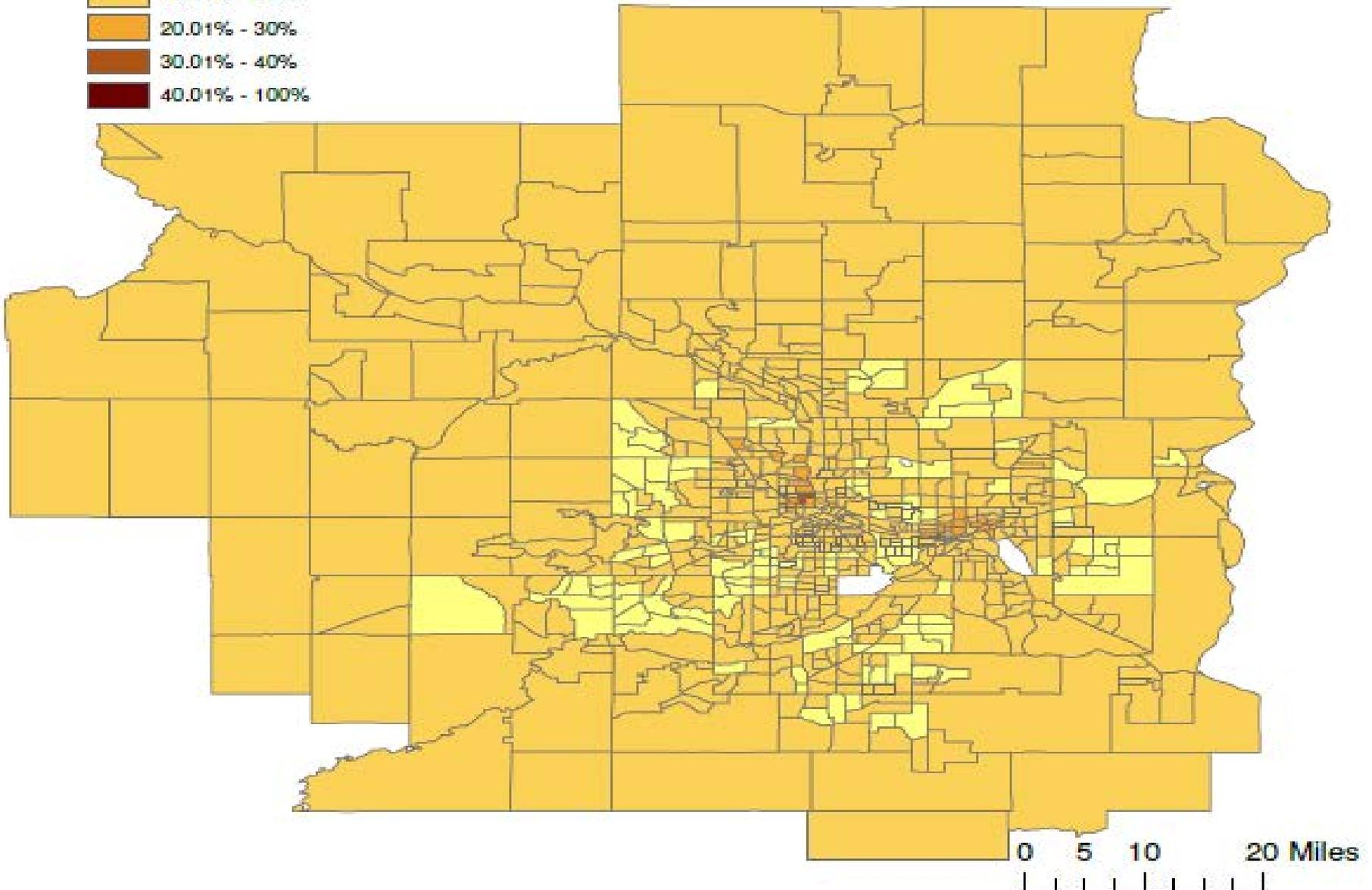
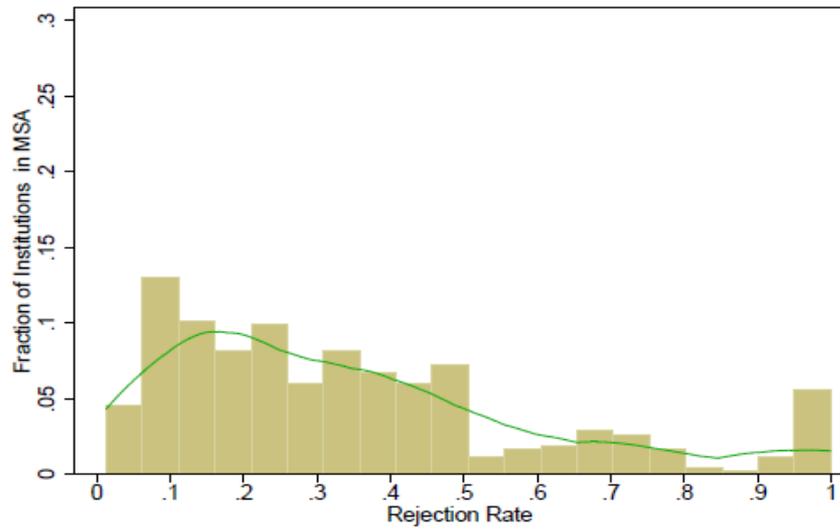
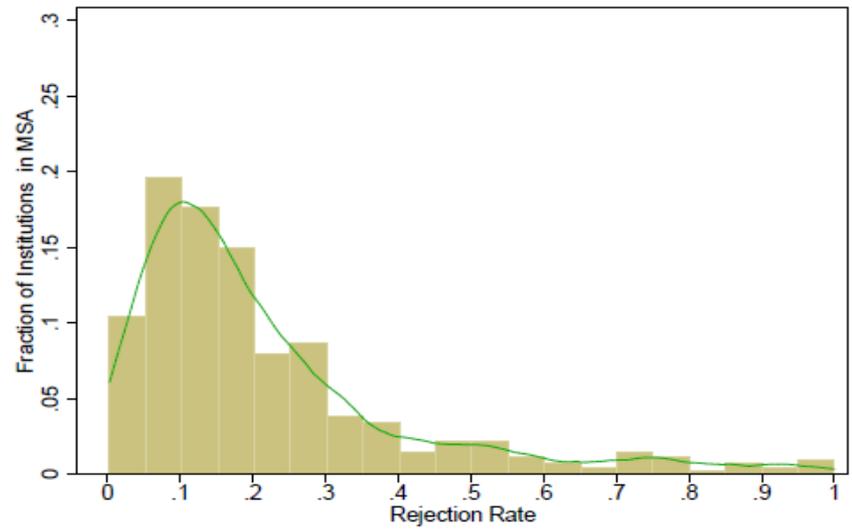


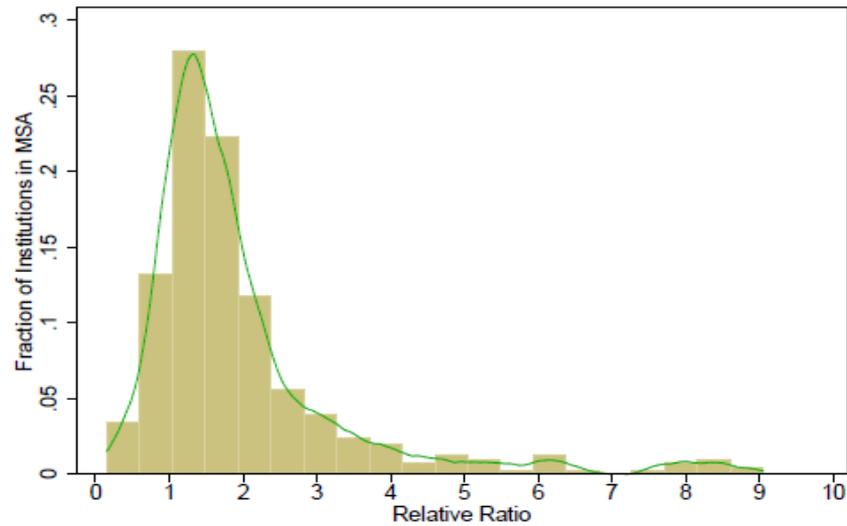
Figure 2: Loan Denial Ratio Distribution in the Twin Cities



(a) Minority Denial Rate



(b) Non-Minority Denial Rate



(c) Relative Ratio

# Explanations for lending disparities

- Hypothesis #1 – Poor credit, low incomes, high risk neighborhoods
- Hypothesis #2 – GSE Guidelines
- Hypothesis #3 – Predatory lending
- Hypothesis #4 – Adverse selection (Subprime Lending)
- Hypothesis #5 – Lender discrimination; lax enforcement

# Results of Test for Discrimination in Twin Cities

# Covariates

- Loan amount, debt/income ratio
- Applicant gender, applicant income
- Predicted credit risk
- Census tract characteristics
- Loan type
- Year

Table A0-2: Oaxaca Decomposition for Overall Market

	(1)	(2)
	LPM-based	Logit-based
Differential		
Prediction_1	0.124*** (0.000359)	-2.113*** (0.00386)
Prediction_2	0.198*** (0.00136)	-1.562*** (0.0101)
Difference	-0.0743*** (0.00140)	-0.551*** (0.0108)
Decomposition		
Explained	-0.0212*** (0.000776)	-0.188*** (0.00734)
Unexplained	-0.0531*** (0.00154)	-0.363*** (0.0124)
% Unexplained	71.46	65.88
<i>N</i>	928578	928578

Note: Robust Standard errors in parentheses

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

# Recommendations to Minneapolis Fed

- More vigorous enforcement of ECOA
- Use of regression-based models to select lenders for audits
- Highlight and encourage successful investments in high-risk neighborhoods (e.g. Stairstep Foundation initiatives and Thor Construction)

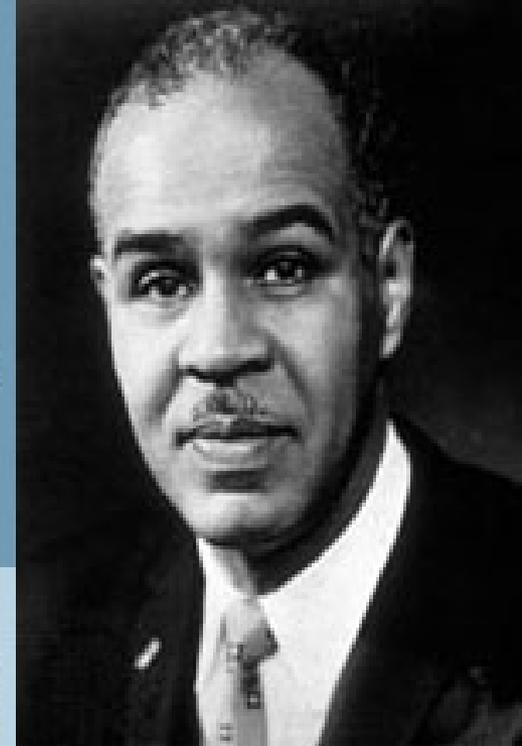
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[http://lgi.umn.edu/features/Responsible\\_Banking\\_Report.html](http://lgi.umn.edu/features/Responsible_Banking_Report.html)

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Be persistent and ornery; this will be good for the lethargic educational  
establishment and will aid the whole cause of public education."*

**Social Reformer & Civil Rights Leader  
1901-1981**



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