**NARROWING THE RACIAL WEALTH GAP THROUGH HOUSING INVESTMENT**

**ISSUE BRIEFING**

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Most federal housing subsidies benefit families with six-figure incomes. If we are going to spend the bulk of our public dollars on the affluent—at least when it comes to housing—we should own up to that decision and stop repeating the politicians’ canard about one of the richest countries on the planet being unable to afford doing more. If poverty persists in America, it is not for lack of resources.

—Matthew Desmond, Evicted: Poverty and Profit in the American City

**Executive Summary**

The United States is in a racially disparate housing crisis. Inadequate annual housing construction is driving up rent and property costs, while the residual effects of redlining continue to devalue Black Americans’ homes and curb their prospects of accumulating wealth. This is the largest driver of the racial wealth gap.\(^1\) The average Black family had a net worth of $17,150 in 2016, ten times less than the average white family.\(^2\) Assessed on feasibility, comprehensiveness, and provision of direct remedies for redlining, the most comprehensive federal housing reform plan currently under consideration in Congress is Senator Elizabeth Warren’s American Housing and Economic Mobility Act. Bipartisan recognition of the housing crisis and decreased aversion public spending on social investments give this bill a profound opportunity to dismantle structural racism.

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\(^2\) [https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/](https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/)
Background

Marginalization caused by the housing crisis falls along two primary axes: income and race. Together, they intersect to block Black Americans from buying homes and accumulating wealth, contributing to structural racism. Annual housing construction is 300,000 units below demand, which drives up prices and will cause rents to increase by 4% annually. This exacerbates the racial homeownership and wealth gap. Close to 70% of the net worth of an average American household is attributed to their home equity, or the difference between their home’s market value and all outstanding mortgages and loans. In 2016, only 42% of Black Americans owned their homes, 30% less than white Americans. One in five homes in predominantly Black neighborhoods had an underwater mortgage—where the principal of the mortgage exceeds the home’s market value—versus less than one in ten homes in predominantly white neighborhoods. In 2017, the Black median household income was $41,692, versus $70,642 for white households. Equalizing Black and white homeownership rates and wealth return rates would narrow the racial wealth gap by 47%.

Redlining and Residual Effects

Historical state-sanctioned racism is largely responsible for racial wealth and housing disparities. In 1933, the Home Owners Loan Corporation (HOLC) was created to manage underwater mortgages and foreclosures; for the sake of efficiency, it appraised property values at the neighborhood level. HOLC graded neighborhoods in over 170 metropolitan areas on the presence of racial minorities, immigrants, and other “undesirable element[s].” Neighborhoods with high concentrations of Black people received the lowest grades and were “redlined” on maps, which devalued their homes, restricted their credit access, cemented residential segregation, and created a homeownership gap that persists to this day.

Homes in formerly redlined areas are now worth only 85% of the median home value in surrounding neighborhoods. All ten US cities with the highest Black populations have high degrees of residential segregation. This is the key reason why Black homeowners do

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5 Ibid.
6 https://www.zillow.com/research/negative-equity-race-q3-2016-14063/
10 Ibid.
not have the same wealth return rates as white homeowners.\textsuperscript{14} The wealth gap between Black and white households nearly tripled from $85,000 in 1984 to $236,500 in 2009.\textsuperscript{15} Today, a $1 increase in inheritance adds 91 cents to white households’ wealth growth but only 20 cents to a Black household’s wealth.\textsuperscript{16}

**Community Reinvestment Act**

In 1977, Congress passed the Community Reinvestment Act (CRA) as a remedy for redlining, which penalizes depository institutions that do not meet the credit and banking needs of their communities, particularly formerly redlined neighborhoods.\textsuperscript{17} Penalties are imposed if institutions receive poor CRA ratings from federal regulators. After many decades of poor enforcement due to regulators’ resistance, the formula behind CRA ratings today is difficult to discern but appears to be based on the dollar volume of services depositories provide, and not whether such services improve community development.\textsuperscript{18} Roughly two-thirds of CRA loans are made to businesses that sustain low-wage work rather than fostering economic development, while dollar volume measurement rewards serving high-income residents.\textsuperscript{19} This may actually exacerbate gentrification and displacement of low-income residents, undermining the CRA’s legislative intent. The bulk of nationwide housing construction caters to high-income residents and without substantial change, housing will only become more unaffordable.\textsuperscript{20}

**American Housing and Economic Mobility Act**

Policy proposals to make housing more affordable and accessible while decreasing the racial wealth gap should be assessed on comprehensiveness and how well they address the persisting effects of redlining.

**Legislation Overview**

The American Housing and Economic Mobility Act (AHEMA) tackles the housing crisis by investing $479.5 billion into affordable housing infrastructure, of which 92% will go to the Housing Trust Fund and $25 billion will go into the Capital Magnet Fund, both established by the US Housing Act of 1937.\textsuperscript{21} It will allocate $2 billion to families whose wealth was destroyed by the 2008 financial crisis, focusing on borrowers with underwater mortgages. AHEMA gives down payment grants of up to 3.5% of the property value to

\textsuperscript{14} http://www.demos.org/sites/default/files/publications/RacialWealthGap_2.pdf?mod=article_inline
\textsuperscript{15} https://heller.brandeis.edu/asp/pdfs/racial-wealth-equity/racial-wealth-gap/rootswidening-racial-wealth-gap.pdf
\textsuperscript{16} Ibid.
\textsuperscript{17} https://www.tandfonline.com/doi/abs/10.1080/10511482.2019.1666552?journalCode=rhpd20
\textsuperscript{18} Ibid.
\textsuperscript{19} Ibid.
\textsuperscript{20} Ibid.
\textsuperscript{21} https://www.warren.senate.gov/imo/media/doc/Moody\%20Report\%20on\%20American\%20Housing\%20and\%20Economi%20Mobility%20Act1.pdf
\textsuperscript{21} https://www.congress.gov/bill/116th-congress/senate-bill/787
first-time homebuyers and people earning up to 120% of the median income in formerly
displaced neighborhoods. It will further reform the CRA to require financial institutions to
release and solicit public feedback on community development plans, while extending
CRA obligations to nonbank mortgage originators. Funding would come from increasing
taxes on estates valued at $3.5 million or higher.22

Policy Analysis

AHEMA is a comprehensive action plan, from investing in public
housing projects to directly targeting displaced neighborhoods and reforming the CRA. It is
projected to build 3.2 million new housing units, decrease rent for low- and middle-income
families by 10%, and create 1.5 million jobs.23 Given that average down payments for first-
time homebuyers in 2016 were 6% of the property value, AHEMA’s 3.5% down payment
grant would make homes significantly more affordable for victims of displacement while
preserving credit integrity by requiring homeowners to save up the difference.24 By
expanding CRA-covered institutions and requiring them to release community
development plans with public comments, AHEMA improves neighborhood prospects and
provides valuable organizing opportunities for opposing gentrification.

AHEMA is economically feasible and is fully funded by an increased estate tax on
the 14,000 wealthiest American households, with no effect on the bottom 96.5%.25 This
promotes socio-economic equality and is likely to induce economic consumption among
those affected.26 Most American households are less impacted by estate taxes, including
theoretical market distortions, than realistic alternatives such as broad income taxes.27

AHEMA enjoys significant political support. Over three in five Americans believe
there is too much income inequality, indicating low opposition to AHEMA’s estate tax.28
AHEMA is endorsed by the Credit Union National Association, the US Conference of
Mayors, the National Rural Housing Coalition, the National Consumer Law Center, and
twenty civil rights groups including the NAACP.29 Even President Donald Trump
acknowledged the urgency of the housing crisis in an executive order.30

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Conclusion & Next Steps

America’s public housing crisis is real and untenable. It contributes to structural racism, exacerbates class differences, and restricts economic opportunity. It is critical to note, however, that while housing disparities are responsible for much of the racial wealth gap, systemic and cultural racism in hiring practices, workplaces, education, carceral disenfranchisement, and many other areas are also large contributors. Fully closing the racial wealth gap and addressing the much larger problem of racial economic injustice will require much broader, bolder legislation at the federal, state, and municipal level; and community reinvestment across the country. Nonetheless, AHEMA proposes bold public spending and systemic reform that will do much to alleviate the damage of redlining and institutionalized racism in housing.

ABOUT THE WORLD IS WATCHING

The World Is Watching is a global coalition demanding concrete actions to end police brutality and systemic racism in the US.

We are leaders, foreign and domestic professionals, organizations, grassroots activists, and allies. We are creating a unified international front calling for policy, system, and environmental changes. Our inspiration stems from the critical role that international pressure had in advancing the Civil Rights Movement of the 1960s. We are now in the largest civil rights movement in history and we are strategically mobilizing the global community in the fight for justice.

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