



# Who has access to homeownership?

Homeownership can transform lives. It creates long-lasting and life-changing impact on families and communities, from providing a source of wealth and asset-building to influencing health and educational outcomes and contributing to positive community development. The first step in bringing homeownership to more families, however, is to understand who currently has access to homeownership and what factors play a role.

## This evidence brief will:

- Summarize research on trends in homeownership and barriers to achieving it.
- Provide an overview of the racial gap in homeownership, including key drivers.
- Share how Habitat for Humanity increases access to homeownership.

# Trends in homeownership rates

Since 1965, the U.S. homeownership rate has fluctuated from a low of 62.9% in 1965 to a high of 69.2% in 2004, landing at 65.3% in the first quarter of 2020.<sup>1</sup> The 2019 Consumer Financial Literacy Survey shows that half of U.S. adults face barriers to homeownership (Figure 1).<sup>2</sup> Several key barriers contribute to constraining access to homeownership, especially affordable homeownership.

## Key barriers to accessing affordable homeownership

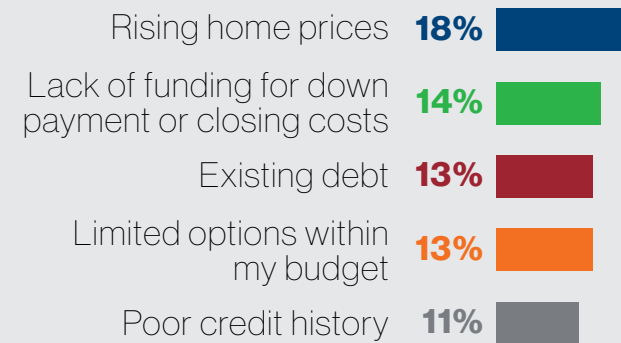
The existing housing inventory does not meet current demand, particularly for lower-priced homes.

- The demand for housing outstrips the current supply, especially at lower price tiers. In 2018, the U.S. Department of Housing and Urban Development estimated a need for 2.5 million additional housing units to meet long-term housing demand.<sup>3</sup>
- The rising costs of land, labor and materials limit homebuilding and target most new construction at higher price points. Construction costs, fueled largely by labor shortages and material costs, have risen by more than 20% since 2004.<sup>4</sup> In more than 80% of counties in the U.S., land values for residential construction have soared.<sup>5</sup>
- Sales of existing homes failed to fill the void, with 46% of for-sale inventory in the highest-priced tier of homes by value and only 23% in the bottom tier.<sup>5</sup>

### How Habitat responds

- Habitat affiliates expand housing inventory in their communities that is affordable to low- and moderate-income households by building new homes and rehabilitating and repairing existing homes, providing much-needed affordable housing stock neglected by standard residential construction.
- In some markets, Habitat affiliates offer permanent affordability strategies, such as shared-equity homeownership, in order to preserve the community's affordable housing stock.
- Habitat advocates at all levels of government for programs and policies that fund and stimulate new development and preservation of affordable housing.

FIGURE 1: TOP FIVE BARRIERS TO HOMEOWNERSHIP



Home prices have been increasing rapidly, especially for less expensive homes, and median household incomes have not kept pace.

- Prices for more affordable homes (those affordable at 75% of the metro area median income and below) increased at nearly twice the rate of expensive homes (those affordable at 125% of metro AMI and above).<sup>5</sup>
- The rate of inflation of the median home price for existing single-family homes outpaced that of the median household income.<sup>5</sup>

### How Habitat responds

- Habitat partners with volunteers and Habitat homeowners, and relies on efficient building methods, modest house sizes and nonprofit loans to keep costs low and make Habitat homes affordable for low- to moderate-income families.
- As a rule, Habitat homes are priced at fair market value, which is the price of the home if it were sold under prevailing market conditions.
- Habitat advocates for public policies on land acquisition, use and development to lower the cost of homebuilding.

Down payments, closing costs and increases in mortgage interest rates can put the cost of purchasing a home out of reach for many U.S. households.

- Down payment and closing costs can be 3% to 25% of the price of a home, putting homeownership out of reach of some households.<sup>6</sup> A 2018 Urban Institute study found that 68% of renters identify saving for a down payment as the greatest barrier to homeownership.<sup>7</sup>
- Lower down payments can be initially more affordable but increase monthly costs over the life of the mortgage.<sup>7</sup>
- Rising interest rates and the resulting increase in financing costs reduce the ability for potential buyers to qualify for mortgages that enable them to afford properties meeting their needs.<sup>7</sup>

### How Habitat responds

- Habitat requires lower down payments, if any, and closing costs than standard lending practices, and these can often be paid through flexible payment arrangements.
- Habitat offers low- or no-interest mortgages, making financing costs significantly lower than market rates, and helps rural families access affordable loan products like the U.S. Department of Agriculture's 502 Direct Loan program.
- Habitat advocates for policies that increase and broaden access to safe and sound credit for underserved populations and help close the homeownership gap for Black households and other communities of color.

Lending standards have been tightening since the Great Recession (2007-09), and strict credit standards prevent many potential homebuyers from purchasing a house.

- The tightening of lending standards after the Great Recession was a key factor in declining homeownership rates, preventing potential homebuyers from obtaining mortgages. For low- to moderate-income homebuyers, the share of mortgage loan originations decreased by 25% in the years after the Great Recession.<sup>8</sup>

### How Habitat responds

- Habitat is committed to selecting families based on four criteria: level of need, residing in the affiliate's service area, willingness to partner with Habitat, and ability to repay an affordable mortgage.
- Habitat's lending standards and terms are less subject to market fluctuations, with more flexibility that reflects the lived experiences of its homeowners. This means Habitat may consider nontraditional inputs for establishing creditworthiness (e.g., rental history and utility bills), consistently serve families with lower credit histories, and in a few circumstances, work with families who lack a credit history to help them build one, creating opportunities for wealth building.







## Foreclosures

Foreclosure can have serious implications for a family's health (e.g., depression, anxiety, increased alcohol use and suicide)<sup>9</sup> and ability to build wealth. The dramatic increase in foreclosures during the Great Recession eroded homeownership gains, adversely affecting Black and Hispanic/Latinx homeowners. Underwriting standards and loan structure explain much of the greater likelihood of foreclosure among Black and Hispanic/Latinx borrowers.<sup>10</sup>

Foreclosure rates were lower among borrowers with safer and more affordable mortgages, regardless of race and ethnicity. Only 9.6% of low- to moderate-income and minority homeowners who were offered low down payments and affordable mortgages under the Community Advantage Program defaulted on their mortgage at the height of the subprime crisis in 2009, compared with 47.7% for subprime adjustable-rate mortgages and 22.1% for subprime fixed-rate mortgages.<sup>11</sup>

### How Habitat responds

- By providing low down payments and affordable mortgages in the pursuit of serving homeowners, Habitat helps homeowners avoid subprime mortgages and the foreclosure risks associated with them.
- Habitat advocates for policies and resources such as housing counseling and short-term mortgage assistance to help prevent foreclosure for all homeowners.

## The racial homeownership gap

The homeownership rates for Black and Hispanic/Latinx households continue to trail that of white households. As of the first quarter of 2020, the homeownership rate of white households exceeded that of Black and Hispanic/Latinx households by 25-30 percentage points (Figure 2).<sup>12</sup> This gap has persisted even despite homeownership gains by Black and Hispanic/Latinx households before the Great Recession. In fact, the homeownership rate for Black households has yet to recover to its pre-recession levels, unlike those of white and Hispanic/Latinx households.

In addition to the key barriers faced by all potential homebuyers, racial and ethnic minorities confront other factors that constrain homeownership. Many of these factors are the result of historic structural barriers that racial and ethnic minorities faced over time that have compounded to produce these inequities.<sup>13, 14</sup>

For further information on historic housing policies and their impact on homeownership, see [habitat.org/sites/default/files/documents/Racial-Disparities-and-Housing-Policy-.pdf](https://www.habitat.org/sites/default/files/documents/Racial-Disparities-and-Housing-Policy-.pdf).

## Key barriers to accessing affordable homeownership

**Higher income and wealth are associated with higher homeownership rates, but Black households' income and wealth distributions are notably lower than those of white households.**

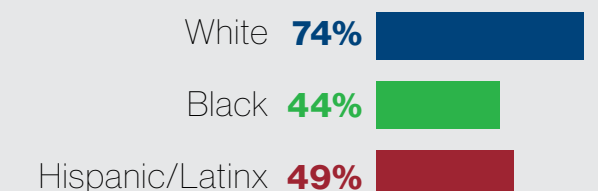
- Racial differences in the income distribution exist where almost 33% of Black households earn below \$25,000, as compared with 16% of white households. Furthermore, only 7.2% of Black households make at least \$150,000, compared with 17.7% of white households.<sup>15</sup> If Black and white households had similar income distributions, the Black homeownership rate would increase by 9 percentage points.<sup>16</sup>
- Low-income white households have a higher homeownership rate (50.8%) than low-income Black households (24.1%), which contributes to wealth disparities. According to the 2016 Survey of Consumer Finances, low-income Black households – those with incomes in the 20th percentile group – had a median wealth of \$3,040, as compared with a median wealth of \$11,860 for white households with a similar income.<sup>16</sup>
- Disparities in parental wealth and homeownership help to explain 12-13% of the Black-white homeownership gap among young adults, pointing to the importance of intergenerational transfers of wealth.<sup>17</sup>
- Income reduction and loss have a greater effect on Black and Hispanic/Latinx households than on white households. A 1% reduction in income lowers the homeownership probability by 18% and 19%, respectively, compared with a 6% decline for white households.<sup>18</sup>

**Greater access to credit promotes higher homeownership rates, but Black households are less likely to have sufficient credit to qualify for homeownership.**

- Over 50% of white households have a FICO credit score higher than 700; only 20.6% of Black households have a similar credit score. This is compounded by fewer Black households (69%) having credit histories, sufficient credit and a credit score than white households (82.1%). If the same credit score distribution is applied to white and Black households, Black homeownership rates would rise by 10.6 percentage points.<sup>16</sup>



FIGURE 2: U.S. HOMEOWNERSHIP RATES





**Systematic inequities, including discriminatory housing policies and institutional barriers, hamper homeownership rates for households of color.**

- As much as 17% of the homeownership gap cannot be explained by sociodemographic factors (e.g., income, age, family size, marital status, gender), and researchers hypothesize that the remaining gap may be explained by information networks, limited access to credit, discriminatory housing policies (e.g., redlining, racially restrictive covenants and zoning policies), and other institutional barriers.<sup>13, 16, 18</sup>
- Prospective Black and Hispanic/Latinx buyers still face disparate treatment by real estate agents: more stringent financial requirements for showings, steering to minority neighborhoods, and fewer showings.<sup>19</sup>
- Between 1976 and 2016, despite the passage of laws aimed at reducing discrimination in private lending, the racial gaps in loan denial remained persistent: Black and Hispanic/Latinx borrowers had a higher probability of being denied a loan and of receiving a high-cost mortgage as compared with their white counterparts.<sup>20</sup>

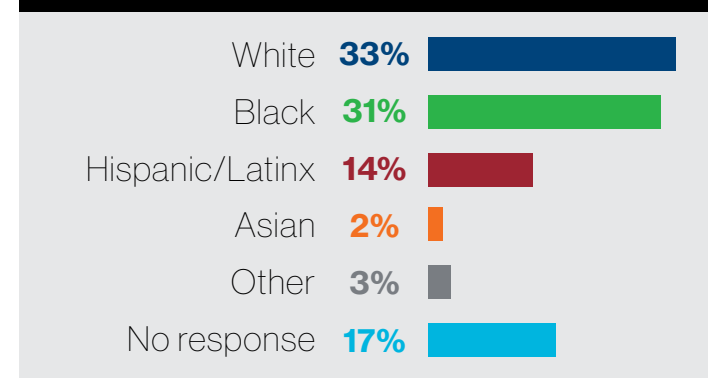
**How Habitat responds**

Habitat serves a diverse base of homeowners, providing more equitable access to housing (Figure 3).

Additionally, Habitat for Humanity advocates for equitable housing and land-use policies at the local, state and federal levels that seek to increase racial equity in homeownership.

For further information on Habitat’s policy solutions to address the racial gap in homeownership, see [habitat.org/sites/default/files/documents/Racial-Disparities-and-Housing-Policy-.pdf](https://habitat.org/sites/default/files/documents/Racial-Disparities-and-Housing-Policy-.pdf).

**FIGURE 3: DEMOGRAPHICS OF HOUSEHOLDS SERVED BY HABITAT AFFILIATES, FY2020**



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# everyone

needs a place to call home

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