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Closing the Gap:

Minority LMI First-Time Homebuyers and Neighborhoods

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While the last decade has witnessed a boom and bust in homeownership generally, there are substantial gaps in the homeownership rates between minority and non-minority households. In 2007, the homeownership rate for white households was 75 percent, compared with less than 50 percent for black and Hispanic households- representing more than a 25 percent gap (U.S. Census Bureau).

In the 1990s and the first half of the 2000s, subprime lending was credited with temporarily reducing this gap. Research demonstrates that as much as one third of the growth in lending to underserved minority and low income neighborhoods can be explained by the growth of the subprime market, and that two times as many low income households, and nearly three times as many black households (or households living in predominately black neighborhoods) received subprime loans than the average borrower. However, with one in four subprime loans in delinquency, (and more than one in ten in foreclosure as of the final quarter of 2009), this strategy was not sustainable and has only exacerbated the homeownership gap, in which minority borrowers have been disproportionately affected by the fall-out from subprime loans.

Moving forward, there is a critical need to re-examine affordable homeownership programs, and strategies to better reach and support minority and underserved households and neighborhoods with such programs. A core component of this re-examination is an understanding of the neighborhoods where low income minority residents move from, and move to, when they first enter homeownership. Important questions include the following:

(1) Mobility: How far do minority first-time homebuyers move when they purchase their first homes? Are they purchasing homes in the same geographic areas (where they were previously renters), or do they move to new geographic areas? How does this differ from mobility patterns of non-minority first-time homebuyers?

(2) Neighborhood Quality: Are minority first-time homebuyers moving to areas of relative socio-economic advantage, or disadvantage, as compared with their previous (renter) neighborhoods? How does this compare with non-minority first-time homebuyers?

(3) Adequate Targeting: Are affordable lending programs appropriately reaching the geographic areas with a high concentration of low- and moderate-income (LMI) minority home purchases? Where do LMI minority first-time homebuyers participating in an affordable lending program purchase homes, relative to purchases by other LMI minority homebuyers?

To begin to address these questions, we examine statewide data on one specific affordable mortgage program, the Ohio Housing Finance Agency's (OHFA) First-Time Homebuyer Program. OHFA's First-Time Homebuyer Program is funded through the sale of tax-exempt Mortgage Revenue Bonds (MRBs), and provides reduced or low interest rate mortgage financing to LMI first-time homebuyers in Ohio with incomes below 115 percent of area median income. Since 2006 alone, OHFA has originated more than 20,000 mortgages to LMI homebuyers through its affordable mortgage program. We nest data on OHFA's homebuyers from 2006-2008 with U.S. Census Data on census tract characteristics, and with Home Mortgage Disclosure (HMDA) data on total reported home purchase

[1]See also: Herbert et al. 2005, Homeownership Gaps Among Low Income and Minority Borrowers, Available online at: http://www.huduser.org/Publications/pdf/HomeownershipGapsAmongLow-IncomeAndMinority.pdf
[2]Calem, P. K. Gillen and S. Wachter. 2004. "The Neighborhood Distribution of Subprime Mortgage Lending," Journal of Real Estate Finance and Economics, 29(4): 393-410.
Avery, Robert B., Glenn B Canner and Robert E. Cook, 2005. New Information Reported Under HMDA and Its Application in Fair Lending Enforcement. Federal Reserve Bulletin. 344-394.

activity in the state of Ohio. Below are a few of the highlights from our preliminary findings in each of the three areas mentioned above.

Mobility

To begin to understand mobility patters of minority and non-minority first-time homebuyers, we compared the locations of previous addresses (renter) and new addresses (homeowner) of participants in OHFA's first-time homebuyer program from 2006-2008. Specifically, we linked both sets of addresses to the appropriate census tract, zip code, county and (when applicable) Metropolitan Statistical Area (MSA). These geographic areas are generally nested, ranging from the micro level (census tracts) to the macro level (MSAs).

Table 1: Mobility Patterns, OHFA First-Time Homebuyers, 2006-2008

	Number of Borrowers	Within MSA	Within County	Within Zip Code	Within Tract
Total	19,784	92%	81%	38%	17%
Non-Minority	17,575	92%	80%	39%	17%
Minority	2,209	97%	92%	30%	13%

Note: Differences between minority and non-minority borrowers are statistically significant at $p<.05$, two tailed t-test.

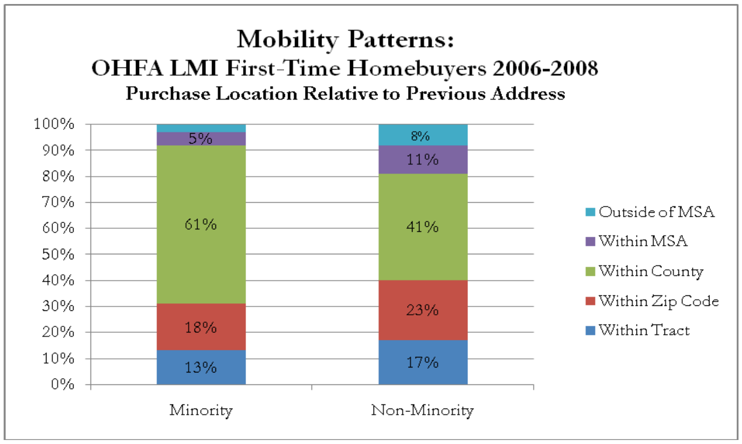
Table 1 provides summary statistics of mobility patterns for minority and non-minority homebuyers in OHFA's program from 2006-2008. As indicated on the table, of the nearly 20,000 homebuyers purchasing their first homes, 92 percent moved within the same MSA and more than 80 percent moved within the same county. This suggests that the majority of first-time homebuyers purchasing homes through the program are staying in the same "macro" geographic area; they do not appear to be moving to new MSAs or counties for economic opportunities (new jobs). Interestingly, this mobility pattern is even more pronounced for minority first-time homebuyers as 97 percent move within the MSA and 92 percent move within the same county.

It is also interesting to consider the "micro" mobility of first-time homebuyers. Literature on residential stability suggests that households who remain in the same neighborhoods for a longer duration of time may have increased economic and social well-being. On the other hand, any positive effect of stability may be muted by households in disadvantaged neighborhoods, lacking in economic and/or "social capital." Movement out of such neighborhoods may be movement towards economic and social well-being. Using census tracts and zip codes as rough approximations of neighborhoods, we find that more than one in three (38 percent) of homebuyers in OHFA's program relocate within the same zip code, and nearly one in five (17 percent) relocate within the same census tract. However, we find that minority homebuyers are significantly ($p<.05$) more likely to move outside of their neighborhoods to purchase homes than non-minority homebuyers, where only 13 percent relocate within the same census tract, and 18 percent relocate within the same zip code.

Thus, while minority homebuyers are more likely to stay within the same macro geographic area than non-minority homebuyers, they are less likely to stay within the same neighborhood (or micro geographic area). These differences in mobility patterns are also displayed on the graph provided in Figure 1.

[3]Aaronson, Daniel. 2000. A Note on the Benefits of Homeownership. Journal of Urban Economics 47(3): 356-369.
[4]J. Harkness and S.J. Newman. 2002. Homeownership for the poor in distressed neighborhoods: does this make sense? Housing Policy Debate 13: 597–630.
Dietz, Robert and Donald Haurin. 2003. The Social and Private Micro-Level Consequences of Homeownership. Journal of Urban Economics 54(3): 401-450.

Figure 1: Mobility



Neighborhood Quality

As indicated above, the majority of first-time homebuyers (83 percent overall, and 87 percent of minority buyers) move to a different census tract when they purchase their first home. Questions arise about the relative socio-economic advantage or disadvantage of the new neighborhoods. Are low income first-time homebuyers (in particular, minority homebuyers) moving to "better" neighborhoods? We link census tract characteristics (from the 2000 U.S. Census Bureau) to both the previous (renter) and new (homeowner) addresses to compare the neighborhoods. Tract characteristics include the proportion of the households living in urban areas (% Urban), the proportion of residents who are black or Hispanic (% Minority), the proportion of residents over 18 who have completed high school (% High School), the median income of the census tract (Median Income), the median sales price of homes in the census tract (Median Value) and the median income of the census tract as a percent of the MSA or county (non-MSA tracts) income (% Area Income).

Table 2: Census Tract Characteristics
OHFA Homebuyers, Previous and New Addresses 2006-2008

	Number of Borrowers	% Urban	% Minority	% High School	Median Income	Median Value	% Area Income
Non-Minority							
Previous	17,575	70%	8%	84%	$44,768	$111,779	104%
New	17,575	71%	8%	83%	$43,626	$103,426	100%
Minority							
Previous	2,209	94%	38%	79%	$36,689	$92,610	83%
New	2,209	95%	32%	81%	$39,035	$89,829	87%

Note: Differences in tract characteristics between previous and new addresses are statistically significant at p<.05.

Table 2 demonstrates substantial variation in neighborhood characteristics between minority and non-minority individuals. If we focus strictly on the previous (renter) census tracts, minority homebuyers are significantly more likely to rent in urban areas (94 percent compared with 70 percent), and live in neighborhoods with a higher proportion of other minority residents (38 percent compared with percent). With regard to socio-economic characteristics, minority renters are in more disadvantaged neighborhoods as measured by education, income and housing values. Most substantially, while non-minority homebuyers move from tracts with median incomes slightly above the area median income (104 percent), minority homebuyers move from tracts with incomes that are only 83 percent of the area median income. Thus, there are substantial socio-economic "gaps" in neighborhood quality between minority and non-minority renter neighborhoods.

One of the most interesting preliminary findings from this analysis is that while there are substantial gaps in neighborhood quality between minority and non-minority residents, these gaps narrow as LMI renters move into homeownership. Figures 2 and 3, below, demonstrate this narrowing by the area median incomes and education levels of the census tracts. Specifically, minority first-time homebuyers tend to purchase homes in tracts with slightly better socioeconomic conditions than their previous renter tracts, and non-minority homebuyers tend to purchase homes in tracts with slightly worse economic conditions than their previous renter tracts. For example, while there is nearly a 20 percent gap in the area median income between renter tracts for minority and non-minority residents, this decreases to a 13 percent difference for the tracts of first home purchase. Similarly, the high school graduation rate gap decreases from 5 percent to 2 percent.

Figure 2

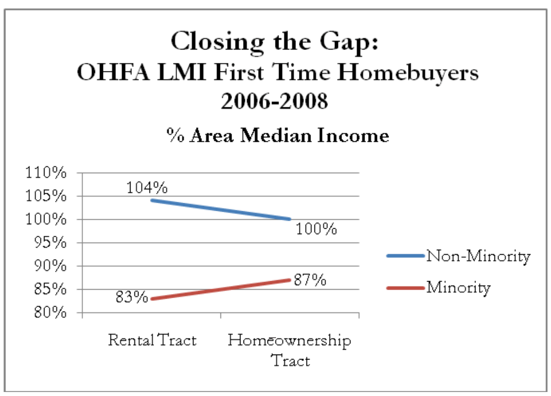
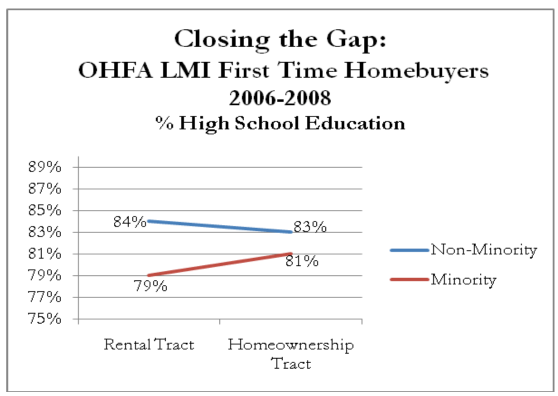


Figure 3



Adequate Targeting

Affordable lending programs, such as OHFA's first-time homebuyer program, can play an important role in closing the gap between minority and non-minority LMI, particularly to the extent that they are adequately targeted to reach underserved populations. One of the more concerning lessons from the subprime mortgage boom and bust is that minority homebuyers were disproportionately targeted by lending institutions originating higher cost mortgages. This is even more concerning when combined with research that suggests that as much as 30 to 50 percent of homebuyers who received higher cost subprime loans could have qualified for lower interest rates (prime mortgage financing). Lending institutions (and their marketing strategies) are important determinants of whether or not underserved populations purchase homes and the types (and costs) of mortgages that they receive.

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It is important to consider the extent to which affordable lending strategies are targeted to underserved populations. One approach is to identify areas with a higher concentration of potentially underserved homebuyers, and to evaluate the extent to which residents in these areas are accessing affordable mortgage programs. To begin to explore this, we use geographical mapping software (ARC GIS) to map the previous (renter) addresses of OHFA assisted minority homebuyers from 2006-2008, overlaid on the minority resident concentration of the census tracts (where they move from). Maps 1-3 (attached) provide a visual depiction of this overlap for three of Ohio's city neighborhoods (Cincinnati, Cleveland and Columbus).

Essentially, darker shaded areas represent census tracts with a higher proportion of minority residents, where the darkest shading represents greater than 50% minority residents in the tract (per 2000 U.S. Census data). The dots depict the previous addresses of minority borrowers purchasing homes through OHFA's program from 2006-2008 (where they lived when they learned about the program). Darker shaded tracts with few dots indicate areas that may benefit from additional targeting, as these are high minority census tracts with few residents who have accessed OHFA's affordable mortgage program.

In addition to looking at previous addresses of minority borrowers (where they move from when they hear about the affordable program), it is helpful to compare the purchase locations of minority homebuyers through OHFA's affordable mortgage program to the purchase locations of minority homebuyers generally.

How do the neighborhoods of home purchase for affordable lending borrowers compare to the neighborhoods of home purchase for other LMI borrowers? Further, are affordable lending programs, like OHFA's First-Time Homebuyer program, adequately targeted to neighborhoods with a high concentration of LMI minority home purchases?

To address these questions, we first compare the neighborhood characteristics of minority and non-minority first-time home purchases in OHFA's program, to the neighborhood characteristics of LMI home purchases outside of OHFA's affordable lending program (based on home purchases reported under HMDA). We restrict our sample to home purchases in 2008, the most recent year for which HMDA data is available. To identify LMI home purchases in HMDA, we divide the reported income of the homebuyer by the median income of the county of home purchase, and include those borrowers with incomes below 115 percent of area median income. We also restrict the HMDA sample to those homebuyers with incomes below 80 percent of area median income, as the majority of borrowers in OHFA's program in 2008 had incomes below the area median income. Table 3 provides the results of the neighborhood comparisons.

[5]Ashton, Phillip. 2008. Advantage or Disadvantage? The Changing Institutional Landscape of Underserved Mortgage Markets. Urban Affairs Review 43(2): 352-402.
[6]Carr, James H. & J. Schuetz. 2001. Financial services in distressed communities: Framing the issue, finding solutions. Fannie Mae Foundation, August.

Table 3: Census Tract Characteristics
OHFA Homebuyers Compared with HMDA Borrowers, Ohio 2008

	Number of Borrowers	% Area Income	% Urban	% Minority	% High School	Median Income	Median Value
OHFA First-Time Homebuyers							
Non-Minority	4,807	106%	75%	8%	84%	$44,162	$104,899
Minority	657	90%	95%	30%	82%	$40,733	$94,331
All Borrowers, Less than 80% AMI							
Non-Minority	30,883	103%	68%	7%	84%	$45,037	$107,283
Minority	3,689	88%	93%	36%	81%	$39,013	$91,189
All Borrowers, Less than 115% AMI							
Non-Minority	50,624	107%	67%	7%	85%	$46,888	$112,875
Minority	5,301	92%	92%	32%	82%	$41,198	$97,396

The average neighborhood characteristics of home purchases through OHFA's program are comparable to the neighborhood characteristics of LMI home purchases generally in Ohio, in 2008. Similar differences are found between minority and non-minority neighborhoods in the overall sample of LMI homebuyers. However, there are a few noticeable differences. First, OHFA borrowers are more likely to purchase homes in urban areas; for OHFA homebuyers, 75 percent of non-minority and 95 percent of minority census tracts of purchase are in urban areas, compared with 67 percent and 92 percent, respectively, for all LMI homebuyers. This suggests that OHFA's MRB program may not be adequately targeted to LMI homebuyers in non-urban areas. Second, minority home purchases through OHFA's program are in less heavily minority concentrated census tracts (30 percent), compared with minority LMI purchases overall (36 percent and 32 percent minority residents). This suggests that OHFA's program may also not be adequately targeted in areas with high minority resident concentration.

To further explore the targeting of OHFA's First-Time Homebuyer program, we use geographical mapping software (ARC GIS) to overlay OHFA borrower minority and non-minority home purchase locations on the locations of LMI minority home purchases generally in Ohio (Maps 4-8). Again, we use HMDA data to identify minority home purchases outside of the MRB program, and restrict the sample to 2008 homebuyers with incomes below 115 percent of area median. To better characterize the geographic locations, the attached maps include "neighborhood boundaries" (rather than census tract boundaries) for three metropolitan areas in Ohio (Cleveland, Columbus and Cincinnati), and census tract boundaries for the larger geographic "corridors" (Cincinnati-Dayton and Cleveland-Akron-Canton). The shading represents the number of non-OHFA minority LMI home purchases in the neighborhood or census tract. The colored dots indicate the locations of minority (orange) and non-minority (green) home purchases through OHFA's first-time homebuyer program in 2008. The corridor maps (Maps7-8) demonstrate that the majority of minority homebuyer purchases, both through OHFA's program (indicated by orange dots) and in general (darker shading of census tracts), are concentrated in the metropolitan areas of the state.

As indicated on the maps, there are obvious neighborhoods with high concentrations of minority LMI home purchase activity with relatively few OHFA assisted minority home purchases. These are potential areas of opportunity for future outreach of OHFA's affordable mortgage program. Specifically, on Maps 4-6, neighborhoods with darker shading (representing 50 or more purchases by low income minority homebuyers) should be considered critical target areas for OHFA's affordable mortgage program. To the extent that there are few OHFA assisted minority purchases in these neighborhoods (represented by the number of orange dots on the map), such neighborhoods would likely benefit from additional outreach from OHFA's affordable mortgage program. Further analysis of homebuyers, other loan products, lending institutions, and even real estate agents operating in these neighborhoods (and similar neighborhoods across the state) will be necessary to develop appropriate outreach strategies.

Summary

Times of crisis provide opportunity for reflection and reevaluation. In light of the mortgage crisis, there is a critical need to reevaluate mortgage lending strategies targeting LMI homebuyers, and in particular, minority homebuyers. On one hand, the mortgage crisis demonstrates that homeownership can be pushed too far, too quickly, via strategies that are neither equitable nor sustainable. On the other hand, continued disparities in rates of homeownership between minority and non-minority households demonstrates the need for better outreach of affordable mortgage programs to underserved neighborhoods.

This analysis is a first step in better understanding the neighborhoods of LMI first-time homebuyers, particularly minority homebuyers, participating on one statewide affordable mortgage program. While many of the lessons learned are particular to OHFA's First-Time Homebuyer program, there are some general takeaways. First, first-time LMI homebuyers (and particularly minority first-time homebuyers) tend to purchase their home within the same macro geographic area where they were previously renters. However, minority homebuyers are more likely to move outside of their "micro" neighborhoods, perhaps because they are moving to areas of relative economic advantage. This may have significant implications for post-purchase support of LMI homebuyers. To the extent that community relationships (residential stability) and social capital are important components of homeowner sustainability, it may be important to identify alternative mechanisms of support for homebuyers moving outside of their neighborhoods to purchase their first home.

Second, this analysis raises interesting questions about neighborhood selection, and the relative advantage or disadvantage of neighborhoods of first time home purchase. More information is needed, beyond census data, to characterize neighborhoods. For example, trend data on housing values in particular neighborhoods over time might be a better indicator of economic stability. School district data, including student performance on achievement tests, would allow for better assessment of the educational advantage (or disadvantage) of the neighborhoods. Also, controlling for other homebuyer characteristics (including age, household size, income and credit) will allow for better isolation of neighborhood differences between minority and non-minority homebuyers.

Finally, there are significant geographic gaps in the "take-up" of affordable mortgage programs, like OHFA's First-Time Homebuyer program. While mortgage lending may have moved outside of brick and mortar institutions for higher income populations, LMI individuals often depend on community institutions and networks to find and select mortgage products. It is critical to ensure that the institutional mechanisms are in place to extend affordable mortgage products to minority and underserved neighborhoods. Beyond identifying geographic areas of opportunity, it is thus essential to identify the institutional mechanisms in the targeted geographies that will most appropriately reach the prospective homebuyers.

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OHFA Assisted Minority Homebuyers and Census Tract Demographics

(Previous Addresses 2006-2008)

Cincinnati, OH

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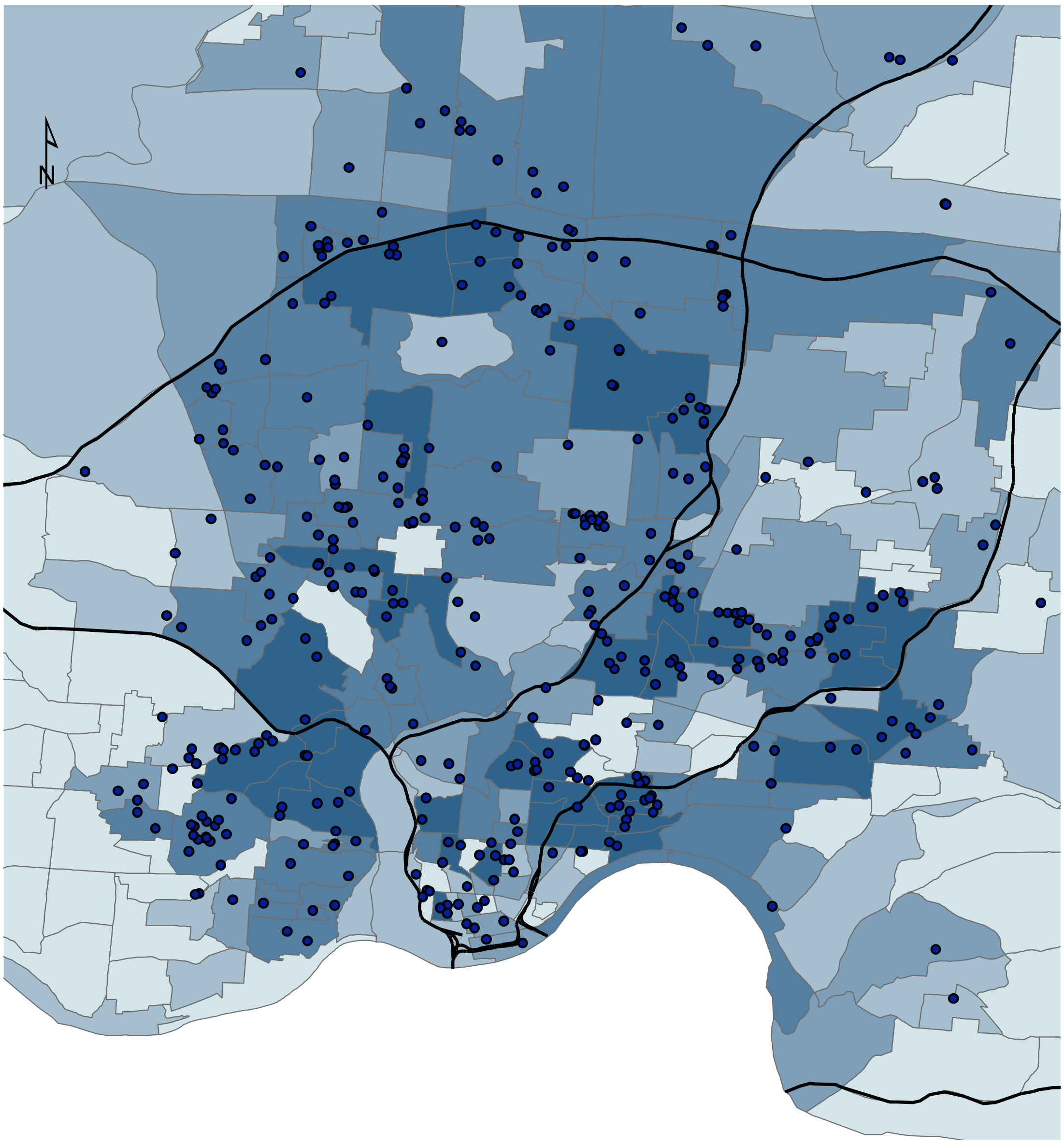

Source: U.S. Census Bureau (2000), and Ohio Housing Finance Agency (OHFA) 2004-2006 Mortgage Revenue Bond (MRB) purchases

Minority Population as percent of Total Population by Census Tracts

0 - 2.50%
2.51 - 5.00%
5.01 - 10.00%
10.01 - 50.00%
greater than 50%

Previous address of OHFA-assisted home-buyer (minority households only)

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OHFA Assisted Minority Homebuyers and Total Low Income Minority Home Purchases

(Purchase Locations 2008)

Cincinnati City Neighborhoods

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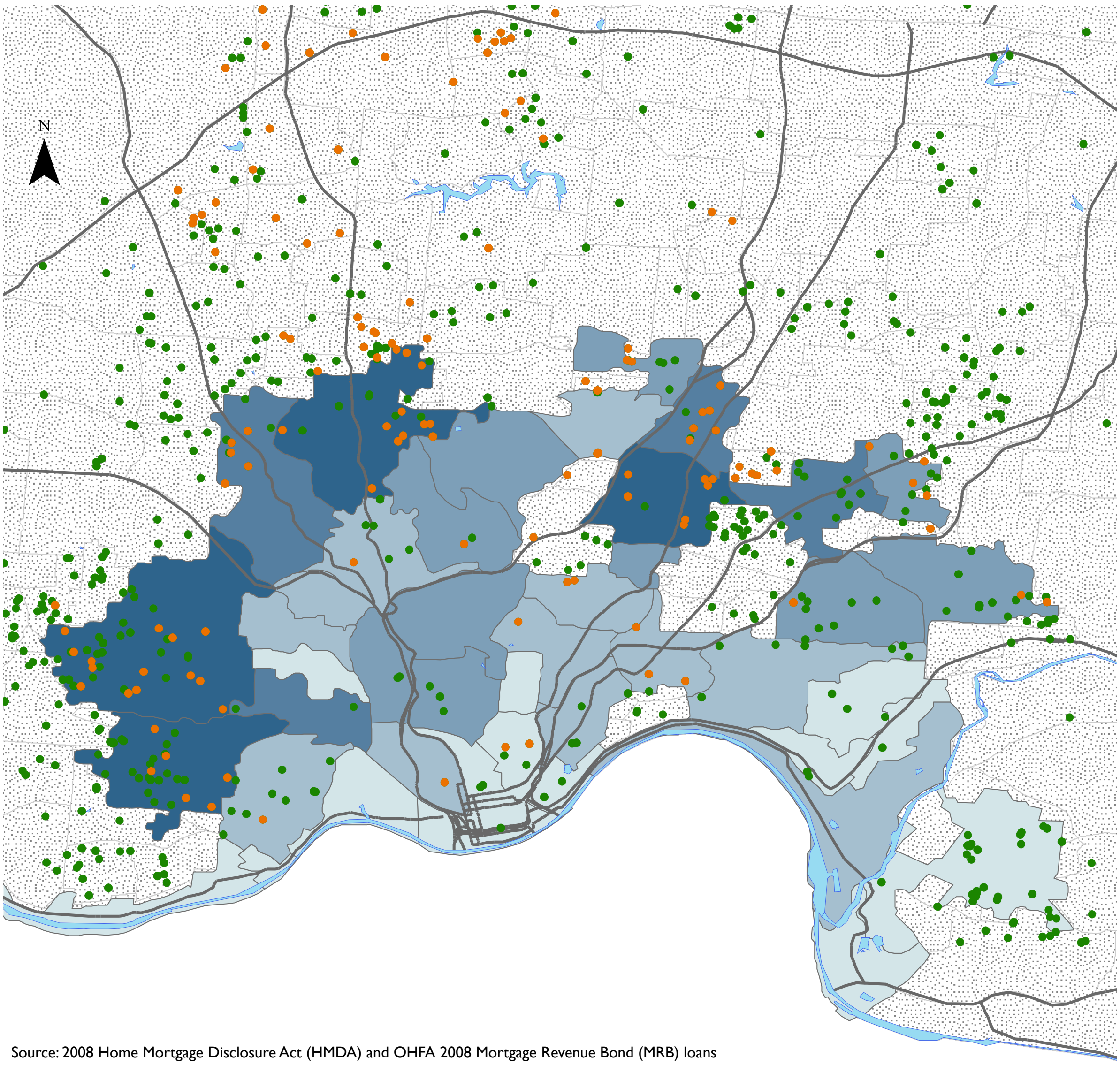

Source: 2008 Home Mortgage Disclosure Act (HMDA) and OHFA 2008 Mortgage Revenue Bond (MRB) loans

Total purchases by low-income, minority households

0-9
10-20
21-35
36-49
50 or more

- Minority MRB Purchases (OHFA)
- All MRB Purchases (OHFA)

Shaded areas are neighborhoods

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Cincinnati-Dayton Corridor Home Purchase Locations

Low-Income Minority Households 2008

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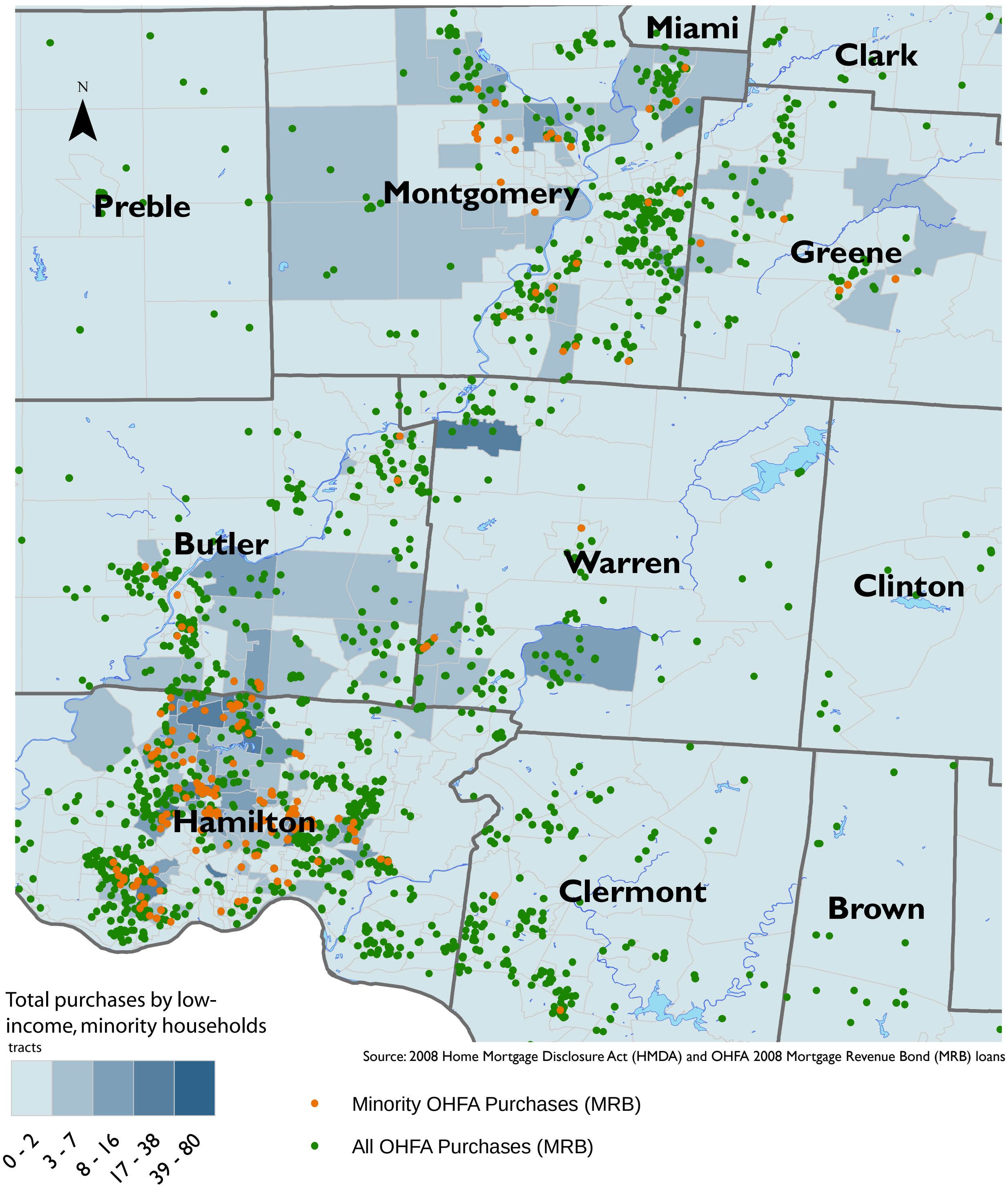

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