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Race, Homeownership and Wealth

Thomas M. Shapiro*

Closing the racial wealth gap must be at the forefront of the civil rights agenda in the twenty-first century. This Article examines homeownership as a main policy strategy to move toward this goal. The Article opens by restating the crucial importance of closing the racial wealth gap, and offers an early assessment of this agenda. Next, the Article argues that homeownership is an appropriate strategy to attack the racial wealth gap. Finally, the Article examines the various promises and many potential pitfalls and challenges facing minority homeownership.

I. WHY WEALTH MATTERS

Wealth, as distinguished from income, offers the key to understanding racial stratification in the United States, especially the persistence of racial inequality in a post-civil rights era in which minorities have made remarkable advances. A wealth perspective provides a fresh way to examine the “playing field.” It provides a concrete way of analyzing how the past connects to the present, and thus provides a mechanism to refresh our historical memory of race. Further, a wealth perspective has significant implications for our thinking about affirmative action and our conceptualization of equality. First, however, I must outline this wealth perspective and explain why it is so important.

Wealth is the total value of a family’s financial resources minus all debts. Income includes earnings from work or its substitutes, like pension, disability, unemployment insurance, or social assistance. Wealth is a special kind of money because it represents ownership

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and control of resources; income is essentially earnings or payments that replace earnings.

Most commentators and analysts are familiar and comfortable with the income comparisons that provide a window as to whether there is growing or declining racial economic inequality. However, the focus on wealth, “the net value of assets (e.g., ownership of stocks, money in the bank, real estate, business ownership, etc.) less debts,” creates a different gestalt or perspective on racial inequality.¹ This gestalt has two dimensions. The first is the conceptual distinction between income and assets. While income represents the flow of resources earned in a particular time period, such as a week, month or year,² assets are a stock of resources that are saved or invested. Income is mainly used for day-to-day necessities, while assets are special monies—a “surplus resource available for improving life chances, providing further opportunities, securing prestige, passing status along to one’s family” and securing economic security for present and future generations.³

The second dimension is quantitative: to what extent is there asset parity between blacks and whites? Do blacks have access to resources that they can use to plan for their future, to enable their children to obtain a quality education, to provide for the next generation’s head start, and to secure their place in the political community? For these reasons, we focus on the inequality of wealth as the *sine qua non* indicator of material well-being. Without sufficient assets, it is difficult to lay claim to economic security in American society.

Income and wealth are often confused both in the public mind and in the social science literature; indeed, the social science paradigm regarding family well-being and inequality has extended to a treatment of wealth only since the mid-1990s.⁴ An assets perspective

1. MELVIN L. OLIVER & THOMAS M. SHAPIRO, *BLACK WEALTH/WHITE WEALTH: A NEW PERSPECTIVE ON RACIAL INEQUALITY* 30 (1995).

2. *Id.*

3. *Id.* at 32.

4. Included in this rapidly emerging literature are: Jennifer Jellison Holme, *Buying Homes, Buying Schools: School Choice and the Social Construction of School Quality*, 72 HARV. EDUC. REV. 177 (2002); Hyungsoo Kim & Jinkook Lee, *Unequal Effects of Elders’ Health Problems on Wealth Depletion Across Race and Ethnicity*, 39 J. CONSUMER AFF. 148 (2005); Trina Williams Shanks, *The Impacts of Household Wealth on Child Development* (Ctr. for Soc. Dev., George Warren Brown Sch. of Soc. Work, Wash. Univ., Working Paper No. 04-

that examines family financial wealth facilitates an additional lens on how advantage and disadvantage is generated and passed along in America. Unlike education, jobs, or even income, wealth allows families to secure advantages and often is the vehicle for transferring inequality across generations. Wealth data for average American families was not collected systematically until the mid-1980s. While data availability provides the capacity for an asset perspective, difficult methodological and conceptual issues remain, such as how to value a home, how to conceptualize home appreciate, how to value a business, and how to treat retirement plans.⁵

The social sciences have neglected the wealth dimension when examining the status of American families in general, and racial inequality in particular. Instead of examining a foundation of property relations, our analyses have focused on occupation, education, and income inequality. This reliance on labor market and human capital indicators began to change, however, with the collection of wealth data for typical American families in the mid-1980s, and the social science and journalistic inequality discussion turned to wealth. Indeed, the increasing wealth concentration and the mounting racial wealth gap have become topics for public conversation and public policy issues, even if at this point they are not on the imminent political agenda.⁶

The standard social science approach to examining racial inequality is to analyze how economic resources, opportunities, and

07, 2004), available at <http://gwbweb.wustl.edu/csd/Publications/2004/WP04-07.pdf>.

The work of Edward Wolff anchors much of the wealth inequality field. See EDWARD N. WOLFF, *TOP HEAVY* (2002). Many other scholars have made important contributions to understanding racial wealth inequality. These scholars include: Joseph G. Altonji et al., *Black/White Differences in Wealth*, 24 *ECON. PERSP.* 38 (2000); Kerwin Kofi Charles & Erik Hurst, *The Transition to Home Ownership and the Black-White Wealth Gap*, 84 *REV. ECON. & STAT.* 281 (2002); John Karl Scholz & Kara Levine, *U.S. Black-White Wealth Inequality*, in *SOCIAL INEQUALITY* 895 (Kathryn M. Neckerman ed., 2004). The work of Mariko Chang has also made significant contributions to this literature.

5. THOMAS M. SHAPIRO, *THE HIDDEN COST OF BEING AFRICAN AMERICAN: HOW WEALTH PERPETUATES INEQUALITY* (2004); see also LISA A. KEISTER, *WEALTH IN AMERICA* (2000) (discussing the conceptual and methodological issues pertaining to survey data on family wealth).

6. See also WOLFF, *supra* note 4. This book contains a good general discussion of wealth inequality in the United States in comparative and historical contexts. The estate tax is a prime example of a political issue in which more information is available to frame the context of the political discussion.

power are distributed. With the focus being the economic dimension, most research has emphasized basic labor market components of jobs and wages.⁷ The work of William Julius Wilson, for example, emphasizes the importance of African Americans' place in a changing occupational structure, shifts in wages, metropolitan economies, and a global economy.⁸ As a result, the effects of wealth disparity and family wealth on differing opportunities and well-being for families have been neglected both by the social sciences and by policy discussions. Further, among all the other racial gaps, whites and blacks are most persistently unequal along the wealth dimension.⁹

Wealth is different from income, and, most importantly, families use wealth in very different ways than they use income. Wealth is a storehouse of a family's financial resources and, when combined with income, frames the opportunity for families to secure the "good life," however they define it, typically by human capital development, business opportunities, home ownership, community location, health, travel, comfort, or security. Wealth, then, is a special kind of money utilized to launch social mobility, create opportunities and status, or pass along advantages to one's children. Two families with similar incomes but widely disparate wealth most likely do not share similar life trajectories, and we must consider this when thinking about inequality and public policy.

The importance of wealth was borne out in the stories of the nearly 200 families interviewed for the book, *The Hidden Cost of Being African American*.¹⁰ Families discussed about how they think

7. SHAPIRO, *supra* note 5, at 33.

8. WILLIAM JULIUS WILSON, *WHEN WORK DISAPPEARS: THE WORLD OF THE NEW URBAN POOR* (1st ed. 1996).

9. SHAPIRO, *supra* note 5, at 33.

10. SHAPIRO, *supra* note 5. Much of the data for this article is taken from the author's book. The in-depth family interviews are from three cities: Los Angeles, Boston and St. Louis. In total, 183 families were interviewed for this project. The sample design called for interviewing families with young, school-age children to probe areas of community choice, homeownership, school decisions, and family financial capacity. Three quarters of the interviewed families were middle class, and one-quarter were working class or poor. Half of the families lived in urban areas, and half in surrounding suburbs. Approximately half of the families interviewed were black and the other half were white. The sample was designed to examine white and black families with similar educational, occupational, and income achievements so that the impact of wealth on critical family capacities and opportunities could

about assets, how they strategize to acquire wealth, how they plan to use assets, and how they actually use them.¹¹ These families clearly view income and wealth very differently, so that wealth is seen as a special kind of money.¹² We asked the families if they treated wealth differently than income. The pattern of answers was resoundingly affirmative, especially among those with ample assets.¹³ Wealth is seen first as a personal safety net, or an unspecified amount of money that is stored away to cushion against the unexpected health crisis, job termination, legal difficulty, or repair of the family car.¹⁴

Beyond serving as a personal safety net—all the more important as the social investment of the state withers—families also view financial wealth as “moving-ahead” money. One respondent succinctly summed it up by saying: “Income supplies life support, assets provide opportunities.”¹⁵ A middle class Bostonian put it this way: “My income is limited. My assets I want to hang on to for future needs.”¹⁶ One Los Angeles mother captured the thinking of many we interviewed when she said that wealth “is definitely long term. We act as if it’s not even there.”¹⁷

If income and wealth are highly correlated, such a distinction is interesting academically, but would be one without much of a difference.¹⁸ Sociologist Lisa Keister’s *Wealth in America* reviews the correlation of income and wealth, and concludes that it is weak at best.¹⁹ According to Keister, this suggests that “studies that focus solely on income miss a large part of the story of advantage and disadvantage in America.”²⁰

Having the capacity to represent inequality from the past, an examination of wealth not only gauges contemporary resources differences, but also suggests a future pattern of inequalities. I

be evaluated. *Id.* at 15.

11. *Id.* at 34.

12. *Id.*

13. *Id.*

14. *Id.* at 35.

15. *Id.* at 34.

16. *Id.*

17. *Id.*

18. *Id.* at 35.

19. KEISTER, *supra* note 5, at 10.

20. *Id.*

suggest a paradigm shift: Wealth changes our conception of racial inequality, its nature and magnitude, origins and transmission, and whether it is increasing or narrowing. Importantly, an examination of wealth allows an analytic window into the contemporary relevance of the historical legacy of African-Americans; indeed, a wealth lens will broaden our understanding of the relationship between historical and contemporary considerations for class as well as for race.

Importantly, civil rights organizations already place the wealth gap on their agenda and have begun to build constituencies and public awareness for action.²¹ While consensus is building on this agenda, how to move forward, and on which specific policies, is still a subject of debate. Thus, while homeownership is central to the discussion of closing the racial wealth gap, other mechanisms, ranging from Individual Development Accounts, to building community assets, to reparations, also offer important remedies. Framing racial inequality from a wealth perspective raises the issue of the deeply embedded racial structure of the United States.

II. THE HOMEOWNERSHIP FOUNDATION

How do families accumulate wealth? This question goes directly to the heart of the American ethos and to my argument. The leading ideological and scholarly answer is that wealth emerges from hard work, disciplined consumption, savings and wise investments, with perhaps some luck thrown in.²² In this individual model, wealth builds slowly during one's lifetime and is life-cycle sensitive, with wealth building gradually in young families, accumulating mostly during the latter working years, and being utilized mostly during retirement.²³ This theory of wealth accumulation thus emphasizes the acquisition, accrual, and depletion of wealth within a lifetime, placing minimal weight on inheritance or on the consequences of state

21. I refer to the work of many organizations, including the National Council of La Raza, the First Nations Development Institute, United for a Fair Economy, the Civil Rights Leadership Council, and others.

22. SHAPIRO, *supra* note 5, at 60.

23. See Franco Modigliani, *The Role of Intergenerational Transfers and Life Cycle Saving in the Accumulation of Wealth*, J. ECON. PERSP., Spring 1988, at 15, 16.

policies and institutional practices on subsequent wealth-accumulating opportunities.

Institutional theory and a sociology of wealth places greater value on inheritance, programs and practices. Homeownership and housing appreciation is the foundation of institutional accumulation.²⁴ Indeed, for most Americans, home equity represents the largest reservoir of wealth: home wealth accounts for 60% of the total wealth among America's middle class.²⁵ The empirically accurate American wealth narrative is not simply about individual hard work, discipline, and savings; notably it is also about structured homeownership opportunities, real estate markets, government programs encouraging homeownership, and residential segregation.²⁶

America has a high homeownership rate, with 69% of Americans owning homes.²⁷ A series of federal policies that started in the 1930s made this high homeownership rate and subsequent middle-class wealth accumulation possible by creating a government-sponsored market. Federal policies helped create a mortgage market where homes could be purchased with long-term, low-interest loans and relatively small down payments, most particularly through the Federal Housing Administration, the Veterans Administration, and the GI Bill. In conjunction with rising wages after World War II, these policies put the American dream of home ownership within the reach of millions of families.²⁸ The beneficial tax treatment of home mortgages and capital gains on home sales makes home ownership more affordable. Transportation policies subsidized an infrastructure that prioritizes private automobiles and allows suburban development. While these federal policies and subsidies have been successful in anchoring America's middle class in home ownership, the same policies have traditionally reinforced residential segregation.²⁹

24. SHAPIRO, *supra* note 5, at 107.

25. *Id.*

26. *Id.* at 107–08.

27. JOINT CTR. FOR HOUS. STUDIES OF HARVARD UNIV., THE STATE OF THE NATION'S HOUSING: 2005, at 15–19 (2005).

28. KENNETH T. JACKSON, CRABGRASS FRONTIER: THE SUBURBANIZATION OF THE UNITED STATES (1985).

29. *Id.*; OLIVER & SHAPIRO, *supra* note 1; GUY STUART, DISCRIMINATING RISK: THE U.S.

III. THE ASSET POVERTY LINE

This section examines the resource condition of typical American families by looking at wealth circumstances. The Asset Poverty Line (APL) is a tool that facilitates an examination of the wealth condition of American families. Using the conservative U.S. government policy as a standard, we asked how long can families survive at a poverty level in the absence of an income stream. In 1999, for example, the monthly poverty line for a family of four was \$1392.³⁰ Thus, to survive at the poverty line for three months, a family needed at least \$4175 in financial assets.³¹ Families with less than \$4175 can thus be categorized as asset poor. It is worth noting the conservative assumptions require accepting the government poverty line, at least for purposes of this exercise.³² Adopting a three-month threshold, instead of, say, a six- or nine-month threshold, is another conservative assumption. The impact is that the actual number of families in asset poverty is underestimated. Nonetheless, the APL focuses attention on asset poverty.

Others, I hope, will push these boundaries. Nearly four households out of ten in the world's wealthiest nation do not own enough assets to live even a poverty lifestyle for three months.³³

If poverty is something that affects not just one in every eight, nine, or ten families [as in the income definition of poverty] but four in ten, then we need to think about poverty very differently because it is much more characteristic of American families. Over half of black American families fell below the Asset Poverty Line in 1999.³⁴

MORTGAGE LENDING INDUSTRY IN THE TWENTIETH CENTURY (2003).

30. For a fuller discussion of this index, see SHAPIRO, *supra* note 5, pt. I.

31. *Id.*

32. An alternative, for example, might use data from living wage campaigns passed by several communities. The living wage figures differ by region and other factors, but the calculation is that the minimum wage needs to double to provide adequate economic resources for a family. Adopting this standard would double the Asset Poverty Line figure and pull close to two-thirds of America's families into asset poverty.

33. SHAPIRO, *supra* note 5, at 38.

34. *Id.*

Viewed in light of financial assets, America's families are far more fragile and precarious than previously thought. Moreover, both class and race features are clearly revealed.

IV. THE RACIAL WEALTH GAP

Sandra McCord lives in Los Angeles with her two daughters, Kalila and Myisha.³⁵ Her neighborhood is poverty stricken and African-American. Sandra has worked at various low-level, poverty wage jobs, but when I talked to her, she was in school working toward her degree.³⁶ She has zero financial assets, owes money on some store charge cards, and manages to get by—barely—on less than poverty income.³⁷ Hers is not an easy life. In the midst of her daily struggles, Sandra is more troubled about her daughters' futures. She believed that the local schools were horrible and unsafe, so she navigated the system to place her daughters in better ones.³⁸ However, these schools are a one and a half hour public bus ride away, and Sandra must pay the bus fares. Bus fares do not cost much, unless, of course, you survive on a budget that is less than half of the poverty line. Each month this poses a cruel dilemma for Sandra: “*Sometimes, to be honest, sometimes, sometimes, when I have to wait for my check . . . sometimes my kids will have to miss a couple of days of school.*”³⁹ Choosing between school for your children or food on the table is not an excruciatingly tragic dilemma that most of us face at month's end. This is the price Sandra and her daughters pay for living in a poor neighborhood.

The McCords are one of nearly 200 families that I interviewed for *The Hidden Cost of Being African American*. While her story and choices may sound extreme, the lack of wealth among African-Americans is a major explanation why racial inequality persists today. The typical African-American family owns just \$3000 in financial wealth (excluding homes).⁴⁰

35. *Id.* at 179.

36. *Id.*

37. *Id.*

38. *Id.*

39. *Id.* at 181 (emphasis added).

40. *Id.* at 49.

The standard metric of racial inequality is to compare the incomes of average white and black families.⁴¹ This measure has ranged from approximately fifty-six cents on the dollar to sixty-two cents on the dollar from the mid-1960s until now.⁴² The range has been narrow, and not much movement has occurred toward more equality or toward closing the income gap. Examining wealth dramatically changes this perspective. The net worth of typical white families is \$81,000, compared to \$8000 for black families.⁴³ A typical white family's wealth is more than \$73,000 greater than the typical black family's, which is a marker of the racial wealth gap expressed in dollars. The baseline racial wealth gap also shows that black families own only a dime of wealth for every dollar owned by white families. One component of this paradigm shift is the magnitude of closing a fifty-nine cent on a dollar gap, to thinking about how to close a ten cent on a dollar gap.

The prevailing explanation for this robust racial wealth gap, of course, is rooted in inequalities in contemporary class-based achievements, such as occupation, education, and income.⁴⁴ Leveling these critical differences in school achievement, jobs, and paychecks, accordingly, will eradicate the racial wealth gap. Our analysis, and that of others,⁴⁵ demonstrates the shortcomings of this class-determinist perspective on racial inequality. In the best-case scenario, comparing equally achieving white and black middle class families illustrates the significance of the historical legacy of government policies and practices, and of race and continuing contemporary institutional discrimination.

When one defines the middle class by education (college degree), an income range, or occupational status (professional, white collar), the black middle class owns about twenty-five cents of wealth for every dollar of wealth owned by the white middle class.⁴⁶ Certainly,

41. *Id.* at 47.

42. *Id.*

43. *Id.* at 47–49.

44. THE BLACK-WHITE TEST SCORE GAP (Christopher Jencks & Meredith Phillips eds., 1988); James P. Smith, *Race and Ethnicity in the Labor Market: Trends over the Short and Long Term*, in 2 AMERICA BECOMING 52, 52–97 (Neil J. Smelser et al. eds., 2001).

45. KEISTER, *supra* note 5; OLIVER & SHAPIRO, *supra* note 1.

46. SHAPIRO, *supra* note 5, at 90–91 figs.4.2–4.

twenty-five cents on the dollar represents advancement over ten cents on the dollar, showing that achievement matters, but a huge racial wealth gap remains when one compares equally achieving whites and blacks. At least as important, one must ask why such a dramatic racial wealth gap remains. Although beyond the scope of this essay, I already have alluded to the enduring importance of how the past continues to play out in the present and the importance of contemporary institutional arrangements in promoting differential wealth accumulating opportunities with clear racial consequences.⁴⁷

Among the crucial issues facing families today is the effect of recent recession and jobless recovery on family economic security. My recent research argues that a widening wealth gap between minorities and whites is reversing the gains earned in schools and jobs, and is making inequality worse.⁴⁸ A report from the Pew Hispanic Center provides new data on family wealth and offers a sobering assessment of the precarious and fragile status of middle-class families—including whites families, but most particularly Hispanic and African-American families.⁴⁹

In the years prior to the 2001 recession, white, Hispanic, and African-American families generated wealth through savings, investment, and homeownership. More families acquired assets and family portfolios grew. In this context of wealth accumulation, however, the wealth gap between minority and white families was widened. The recession and its recovery brought wealth growth to an abrupt halt for millions of American families. During this period, Hispanic and African-American families lost over one-quarter of their wealth, while the wealth of white families slowly grew.⁵⁰ In 2002, a typical Hispanic family owned eleven cents of wealth for every dollar owned by a typical white family, and African-American families owned only seven cents.⁵¹

47. *See supra* pages 57–58.

48. SHAPIRO, *supra* note 5, at 6–12.

49. RAKESH KUMAR KOCHHAR, *THE WEALTH OF HISPANIC HOUSEHOLDS: 1996 to 2002* (2004).

50. *Id.* at 11.

51. *Id.* at 5 (measuring the median net worth of white households as \$88,651, that of Hispanic households as \$7932, and that of Black households as \$5988).

These net wealth losses illustrate how Hispanic and African-American families, and low-to-middle income families in general, have shouldered the burden of tightening economic times and reduced social investment during the Bush administration. Over one in four (25%) Hispanic and African-American families are asset-poor, having no liquid financial assets, compared to 13% of white families.⁵² The research creates the inference that families with small or moderate amounts of wealth drew from their meager stockpile of savings to use as private safety nets.⁵³ In addition to making tough choices, such as giving up health insurance or spacing out medical appointments and refilling prescriptions, this is the real story of how families adapt to recession, jobless recovery, stagnating wages, outsourcing, and a dwindling federal commitment to important safety nets like unemployment benefits and the minimum wage, which has not keeping pace with inflation.

Interest-earning assets, such as savings bonds, IRA and Keogh accounts, 401(k) and thrift accounts, stocks and mutual funds, and business capital, declined precipitously among Hispanic families with assets.⁵⁴ In African-American families, stock and mutual fund investments plummeted by nearly two-thirds.⁵⁵ Surely, this reflects investment losses, but it also represents the tapping of accounts to cover insecurities about employment and income losses. These families adapt by eating the acorns they stored for their future economic mobility and security. Families will not make up these setbacks easily or in a short time span.

While the income, educational achievement, and employment gaps among Hispanics, African-Americans and whites remain steady or show some slight narrowing, the wealth gap increases. I made this argument in *The Hidden Cost of Being African American*.⁵⁶ The report and current data from the Pew Hispanic Center further corroborate that a growing wealth gap reverses the gains earned in schools, on jobs, and in paychecks. An added compounding change is

52. *Id.* at 6.

53. *Id.* at 18.

54. *Id.* at 17–20.

55. *Id.* at 18 tbl. 8.

56. SHAPIRO, *supra* note 5, at 87–92.

that the financial portfolios of Hispanics and African-Americans have shrunk in the current economy.⁵⁷

More than any other economic attribute, wealth represents the sedimentation of historical inequalities in the American experience, in a sense the accumulation of advantages and disadvantages for different racial, class and ethnic groups.⁵⁸ In this way, wealth provides a window to explore how our past influences the realities of today.

This is not simply a story about counting money; families think about using wealth first as a private safety net, and second as a vehicle to launch mobility into middle-class status, homeownership, business development, or a more secure retirement.⁵⁹ The recent recession and recovery—along with current public policies—are a real step backward for the self-reliance and independence of Hispanics, African-Americans, and other low-to-middle income families. These factors represent a double blow against equality and family well-being in America.

V. HOMEOWNERSHIP AND INSTITUTIONAL DISCRIMINATION

Homeownership is the largest component of the wealth portfolios of both white and black families.⁶⁰ In 2002, housing wealth accounted for 63% of all wealth in African-American families.⁶¹ In 2004, homeownership reached historic highs, as 69% of American families lived in a home they owned.⁶² In 1995, 42.2% of African-American families owned homes, increasing to a historic high of 49.5% in 2004.⁶³ This 7.3% increase in African-American homeownership is quite remarkable, and indicates striving, accomplishment, and success. The black-white homeownership gap stood at 28.5% in 1995 and narrowed to 26.2% in 2004.⁶⁴ Increasing

57. KOCHHAR, *supra* note 49, at 16–22.

58. OLIVER & SHAPIRO, *supra* note 1, at 50–52.

59. SHAPIRO, *supra* note 5, at 34–35.

60. KOCHHAR, *supra* note 49, at 36 (“Regardless of race or ethnicity, the house is the single most important asset in the portfolio of homeowners.”).

61. *Id.* at 19 tbl. 19.

62. JOINT CTR. FOR HOUS. STUDIES, *supra* note 27, at 36 tbl. A-8.

63. *Id.*

64. *Id.* at 36.

black homeownership and rising home values are optimistic signs of closing the racial wealth gap. We might expect the homeownership gap to continue to close, as black homeownership starts from a considerably lower base while the higher white rate may be close to exhausting the potential of those who want to become homeowners.

However, the wealth accumulation and homeownership dynamics are marred by critical institutional factors. Nancy Denton's age-specific examination of homeownership rates for blacks and whites illustrates the importance of timing and of life course.⁶⁵ The homeownership gap is widest for the younger age groups (twenty-five to twenty-nine years old), closes incrementally with age, and reaches its narrowest point for the elderly (seventy to seventy-four years old).⁶⁶ Over the life course, the gap closes by almost half, which is very impressive. The simple conclusion is that whites can afford to buy homes earlier than can blacks. This underscores the importance of young couples needing significant parental financial support to afford homeownership.⁶⁷ In understanding this connection between homeownership and wealth accumulation, it is relevant that the earlier a family buys a home, the greater the likelihood that the home will appreciate in value and create more wealth.

As we think about closing the homeownership gap as a strategy for closing the racial wealth gap, we must attend to deeply rooted discriminatory institutional features. Three such features are apparent. First, financial institutions reject African-Americans for home mortgages at considerably higher rates—about a 60% higher rejection rate—than whites, even when white and black families are equally creditworthy.⁶⁸ As sanctioned community redlining diminishes under pressure from the civil rights movement, community organizations, the Community Reinvestment Act and other fair-lending and fair-housing laws,⁶⁹ it appears that financial

65. Nancy A. Denton, *Housing as a Means of Asset Accumulation: A Good Strategy for the Poor?*, in *ASSETS FOR THE POOR: THE BENEFITS OF SPREADING ASSET OWNERSHIP* 232, 238–44 (Thomas M. Shapiro & Edward N. Wolff eds., 2001).

66. *Id.* at 239 tbl. 7.1. For recent data, see JOINT CTR. FOR HOUS. STUDIES, *supra* note 27, at 36.

67. *See, e.g.*, SHAPIRO, *supra* note 5, at 60–72.

68. OLIVER & SHAPIRO, *supra* note 1, at 141–47.

69. JOINT CTR. FOR HOUS. STUDIES OF HARVARD UNIV., *THE 25TH ANNIVERSARY OF THE*

institutions re-create similar results by constructing “objective” criteria of creditworthiness in such a way that individual minority families fall short far more often than white families, thereby re-drawing redlines by family instead of by community.⁷⁰

Second, blacks approved for home mortgages often pay higher interest rates on home loans. Blacks pay interest rates of approximately one third of a percent higher than whites, or about \$12,000 more for the average American home over a 30-year mortgage.⁷¹ Part of this is due to the greater ability of white families to provide larger down payments and even to pay higher service fees for lowered interest rates.⁷² From interviews, discussions with bankers, and other data, it appears that many young white families can rely on significant family financial assistance with down payments and other costs.⁷³ Nearly one-half of all white homeowners report that they received significant financial assistance from their families.⁷⁴ In sharp contrast, seven out of eight African-American homeowners purchased homes on their own.⁷⁵ This inheritance results from the discriminatory housing markets of a previous era, marked by exclusion and residential segregation and backed by government support.⁷⁶

African-Americans were frozen out of the greatest wealth building opportunities in American history. From the Homestead Act in the 1860s, to education and homeownership opportunities provided by the GI Bill and the Federal Housing Administration, to redlining through contemporary discrimination in housing markets, to the segregation tax on housing appreciation, major government-sponsored wealth building opportunities helped foster America’s

COMMUNITY REINVESTMENT ACT: ACCESS TO CAPITAL IN AN EVOLVING FINANCIAL SERVICES SYSTEM (2002), available at <http://www.jchs.harvard.edu/publications/governmentprograms/cra02-1.pdf>.

70. See SHAPIRO, *supra* note 5, at 108–11.

71. *Id.* at 111.

72. *Id.* at 112.

73. *Id.* at 112–16.

74. *Id.* at 113.

75. *Id.* at 113 fig.5.1.

76. See OLIVER & SHAPIRO, *supra* note 1, at 16–18.

middle class and created much wealth.⁷⁷ Meanwhile, these same policies and practices left the African-American community behind at the starting gate. Inheritance of our racial past thus becomes an integral part of the wealth narrative.

One indication that this history is alive today is the fact that most young couples can purchase homes only with significant financial assistance from their parents—especially to cover down payments. For example, Brigette and Joe Barry were having a tough time coming up with the down payment for their house.⁷⁸ They traded in the kids' saving bonds, worked two jobs each around the clock, and held garage sales, but they did not make much headway. Finally, Brigette's mom said, "Well this is stupid. We've got a lot of money here," and provided significant funds to help with the down payment.⁷⁹ This transformative asset moved the Barry family into a white, suburban, middle-class community that they otherwise could not have afforded. Our history denied this possible inheritance to African-Americans, as they toiled in times and under conditions in which wealth accumulation was virtually foreclosed.

The third institutional dynamic of homeownership and home equity poses the most difficult challenges. Here, residential segregation meets housing appreciation. Homes have appreciated in value in most communities and in most areas of the country, except for in poor, minority, urban neighborhoods.⁸⁰ On average, homes owned by whites appreciate in value approximately \$28,000 more than those owned by blacks.⁸¹ Moreover, homes lose about 16% of their value when located in neighborhoods that are more than 10% black.⁸² This gives a new (or old) meaning to the realtor's mantra: location, location, location. Just as home ownership creates wealth for both whites and blacks, it simultaneously widens the racial wealth gap under current conditions.

77. SHAPIRO, *supra* note 5, at 189–91 (briefly summarizing the effects of various government policies).

78. This anecdote is taken from *id.* at 73–74.

79. *Id.* at 73.

80. *Id.* at 120–21.

81. *Id.* at 121.

82. *Id.* at 122.

VI. THE DARK SIDE OF HOMEOWNERSHIP—NEW CHALLENGES

Subprime lending is targeted to prospective homebuyers with blemished credit histories or with high levels of debt who otherwise would not qualify for conventional mortgage loans.⁸³ These loans bring homeownership within the grasp of millions of families, and they are essential in expanding homeownership rates. In return for these riskier investments, financial institutions charge borrowers higher interest rates, often require higher processing and closing fees, and sometimes add special loan conditions such as prepayment penalties, balloon payments, and adjustable interest rates.⁸⁴

The subprime market expanded greatly in the last decade as a part of new, aggressive marketing strategies by financial institutions hungrily eyeing rising homeownership rates and seeing promising new markets. Moreover, the mortgage finance system in the United States became well integrated into global capital markets during this time, which offer an ever-growing array of financial products, including subprime loans. Subprime loan originations grew more than nine-fold, from \$35 billion to \$332 billion between 1994 and 2003.⁸⁵ Reflecting the increasing importance of subprime loans to the financial industry, the subprime share of mortgage loans has seen a parallel meteoric rise from less than 4% in 1995, to about 17% in 2004.⁸⁶

Loan terms such as prepayment penalties and balloon payments increase the risk of mortgage foreclosure in subprime home loans, even after controlling for the borrower's credit score, loan term, and varying economic conditions.⁸⁷ For example, one study demonstrated that subprime prepayment penalties and balloon payments place Americans at substantially greater risk of losing their homes.⁸⁸

83. JOINT CTR. FOR HOUS. STUDIES, *supra* note 27, at 17.

84. *Id.*

85. ROBERTO G. QUERCIA ET AL., CTR. FOR CMTY. CAPITALISM, THE IMPACT OF PREDATORY LOAN TERMS ON SUBPRIME FORECLOSURES: THE SPECIAL CASE OF PREPAYMENT PENALTIES AND BALLOON PAYMENTS 2 (2005), <http://www.kenan-flagler.unc.edu/assets/documents/foreclosurepaper.pdf>.

86. *See* JOINT CTR. FOR HOUS. STUDIES, *supra* note 27, at 17 fig.20.

87. QUERCIA, *supra* note 85, at 27–28.

88. *Id.* at 27–30.

A key finding is that subprime home loans with extended prepayment penalties faced 20% greater odds of entering foreclosure than loans without prepayment penalties.⁸⁹ Prepayment restrictions mean that homeowners are stuck with loan terms, unable to refinance to obtain lower rates to weather financial difficulties or take advantage of lower interest rates.⁹⁰ Another important finding demonstrates that subprime home loans with balloon payments, in which a single lump sum payment many times the regular payment amount is due at the end of the loan term, face 50% greater odds of entering foreclosure than fully amortizing loans.⁹¹ In addition, borrowers whose subprime loans include fluctuating interest rates face 25% greater odds of entering foreclosure than borrowers with fixed rate subprime mortgages.⁹² In the fourth quarter of 2003, 2.13% of all subprime loans across the country entered foreclosure—this was more than ten times higher than the rate for all prime loans.⁹³ One in five of all first-lien subprime refinance loans that originated in 1999 had entered foreclosure by December of 2003.⁹⁴

Delinquency (falling behind in mortgage payments) and losing one's home through foreclosure hit vulnerable neighborhoods hardest.⁹⁵ Concentrated foreclosures can negatively impact the surrounding neighborhoods and threaten to undo community building and revitalization efforts achieved through decades of collaborative public-private partnerships, community organizing, and local policy efforts.⁹⁶

Los Angeles is a case in point. In a short three-year period (from 2001 to 2004), over 14,000 Los Angeles families lost their homes through foreclosure.⁹⁷ The foreclosure rate was highest in the most

89. *Id.* at 27. Extended prepayment penalties are typically longer than three years. *Id.* at 23.

90. *Id.* at 8.

91. *Id.* at 25.

92. *Id.* at 24. Loans with fluctuating interest rates are known as Adjustable Rate Mortgages, and they comprised 49% of the 1999 subprime market. *Id.* at 23.

93. *Id.* at 2.

94. *Id.* at 21.

95. MARK DUDA & WILLIAM C. APGAR, L.A. NEIGHBORHOOD HOUS. SERVS., MORTGAGE FORECLOSURE TRENDS IN LOS ANGELES 1 (2004).

96. *Id.*

97. *Id.* at 2.

vulnerable neighborhoods. Predominately minority neighborhoods of Los Angeles county experienced approximately 45% of all foreclosures.⁹⁸ In the City of Los Angeles, foreclosures occur nearly twelve times more often in predominately minority communities than in areas with fewer than 20% minorities.⁹⁹

About one in four of all Los Angeles home foreclosures occur in neighborhoods in which low-income minority families are concentrated.¹⁰⁰ The impact is devastating, as 7.6% of all families paying mortgages lost their homes between 2001 and 2004.¹⁰¹ Los Angeles is not alone; data from Atlanta, Baltimore, Boston, Chicago, and others show that Los Angeles is part of a larger, national pattern.¹⁰²

A study examining pricing disparities in the mortgage market provides more context, placing the Los Angeles story in a broader pattern. Of all conventional loans to blacks, nearly 30% were subprime, compared to only 10% for whites.¹⁰³ These ratios would align more closely in lending markets that operated with maximum efficiency and equity. Creditworthy criteria, like debt-to-income ratios, do not explain the greater propensity for African-Americans to receive subprime loans.¹⁰⁴ The report also discovered that subprime loans in minority communities increased with levels of racial segregation.¹⁰⁵ This suggests an alarming new form of modern redlining that targets minority neighborhoods for subprime loans.

Using a testing methodology adapted from those that explored job discrimination, the National Community Reinvestment Coalition explored how pricing disparities resulting from intensified subprime lending in minority areas occurred. Essentially, white and black

98. *Id.*

99. *Id.*

100. *Id.*

101. *Id.*

102. *Id.*

103. NAT'L CMTY. REINVESTMENT COAL., PREAPPROVALS AND PRICING DISPARITIES IN THE MORTGAGE MARKETPLACE 5 (2005).

104. *Legislative Solutions to Abusive Mortgage Lending Practices, Hearing Before the H. Subcomms. on Housing and Community Opportunity and Financial Institutions and Consumer Credit and the H. Comm. on Financial Services*, 109th Cong. 5-7 (2005) (testimony of Stella Adams).

105. *Id.* at 4.

testers with similar credit records and qualifications applied for pre-approval for mortgages.¹⁰⁶ Given similar scripts and profiles (with African-Americans actually presenting better qualifications), the testing uncovered a 45% rate of disparate treatment based on race.¹⁰⁷ The testing revealed practices that may have destructive effects on African-American families and communities. These include differences in interest rates quoted; differences in information about fees, rates, loan programs, and loan terms; and more frequent referrals of whites to the lender's prime lending division.¹⁰⁸ In *Black Wealth/White Wealth*, we wrote that differences in loan rejection rates and interest rates did not result from discriminatory lending practices, but from blacks bringing fewer financial assets to the mortgage table and, as a result, paying higher loan terms.¹⁰⁹ Racial pricing disparities and the targeted spread of subprime lending to minority communities, however, now persuade us that minority America is experiencing a new form of redlining organized by race and geographic space. With data like this, foreclosure, transparency, fair lending, and federal regulatory responsibility become central to public policy debates.¹¹⁰

Since homeownership results in wealth-building for most, we must consider ways to boost affordable homeownership. Similarly, we must pay more attention to protecting the assets that families already own, especially homes. The documented trends in growing credit card debt,¹¹¹ rising predatory lending, and subprime loans endanger financial assets for low-income, elderly, and minority homeowners in particular.

Addressing inequities in home mortgage applications and attending to differences in mortgage rates is conceivable using existing laws, tools, and good will, but grappling with the supposedly

106. *Id.* at 5.

107. *Id.* at 6.

108. *Id.*

109. OLIVER & SHAPIRO, *supra* note 1, at 136–47.

110. *See, e.g.*, PREAPPROVALS AND PRICING DISPARITIES IN THE MORTGAGE MARKETPLACE, *supra* note 103, at 21–25 (recommending various legislative and regulatory actions).

111. TAMARA DRAUT & JAVIER SILVA, BORROWING TO MAKE ENDS MEET: THE GROWTH OF CREDIT CARD DEBT IN THE 90S (2003), available at http://www.demos-USA.org/pubs/borrowing_to_make_ends_meet.pdf.

objective, automated credit-scoring system for credit approvals will not be easy.¹¹² More difficult and seemingly intractable barriers emerge when thinking through remedies for residential segregation. Because residential segregation is the lynchpin for race relations and the racial wealth gap, this must be part of the discussion.¹¹³

While increasing homeownership seems like an obvious strategy for closing the racial wealth gap, other cautions must be noted before becoming uncritically swept up by this strategy. Americans cashed out \$333 billion worth of home equity between 2001 and 2003 when interest rates were low and refinancing was advantageous.¹¹⁴ This level of refinancing and pocketing part of the appreciation was three times higher than any previous period since the data was first tracked in 1993.¹¹⁵ Cashing out home equity is neither positive nor negative on its face. The real question is how families use that money. One would hope it is used for such things as new investments, improving human capital, leveraging new opportunities, and launching social mobility in other areas. Such utilization might promote better human and family development, and portend a better future. However, a majority of households used their newfound wealth in quite another fashion—to cover living expenses and repay credit card debts.¹¹⁶ Cashing out home equity is particularly troublesome given the decline in homeowner's equity between 1973 and 2004. In other words, Americans own less of their homes today than they did in the 1970s and early 1980s.¹¹⁷ We must be wary of this new form of “strip mining” home equity.

Another caution against going overboard on homeownership is in order. Housing should be viewed as a continuum, with affordable housing—either homeownership, rental or transitional—the goal. Not all families at all phases of their life cycles are appropriate candidates

112. JOHN YINGER, CLOSED DOORS, OPPORTUNITIES LOST: THE CONTINUING COSTS OF HOUSING DISCRIMINATION 65–70 (1995).

113. See DOUGLAS S. MASSEY & NANCY A. DENTON, AMERICAN APARTHEID: SEGREGATION AND THE MAKING OF THE UNDERCLASS (1993); YINGER, *supra* note 112, at 110–14.

114. Javier Silva, *A House of Cards: Refinancing the American Dream* 1 (Dēmos, Briefing Paper No. 3, 2005), available at <http://www.demos-USA.org/pubs/AhouseofCards.pdf>.

115. *Id.*

116. *Id.* at 3.

117. *Id.* at 4.

for homeownership, and policy must take this into consideration. In addition, since housing appreciation depends upon location, prescriptions for homeownership must be tempered by a realistic assessment of property valuation and the types of public, social investments that improve neighborhoods.

My discussion here has focused mostly on the exchange value of homeownership. In the larger discussion of how families employ wealth to pass along advantages and opportunities to their children, it is important to note that homes also have use value. By this I mean that homeownership (or renting) locates a family in a set of community services, contexts, and relationships, and partially defines race and class identities. For example, most children attend school according to the geographic location of their housing. Because of this selection process and because most schools are funded by local taxes, housing affordability is a large determinant of school quality, resources, and peers.¹¹⁸

Finally, more attention is needed on protecting wealth accumulation and preservation, and on the political debate and the racialized state policies embedded in our tax code. Federal asset policies cost \$335 billion in 2003, the vast majority of which are in tax expenditures or credits.¹¹⁹ Most of these current asset policies subsidize homeownership through the mortgage interest deduction, create incentives for retirement savings, and subsidize saving and investment for those already well off. For example, one-third of these tax benefits accrue to the wealthiest one percent.¹²⁰ Alternatively, representing the proverbial crumbs, five percent of the asset-related tax benefits go to the bottom sixty percent of the population.¹²¹ Reversing these priorities is a good starting part for inclusive asset building policies that promote equity.

118. SHAPIRO, *supra* note 5, at 138, 167–82.

119. CTR. FOR ENTER. DEV., HIDDEN IN PLAIN SIGHT: A LOOK AT THE \$335-BILLION ASSET-BUILDING BUDGET 1 (2004).

120. *Id.*

121. *Id.*