



Impact of the US Housing Crisis on the Racial Wealth Gap Across Generations

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SOCIAL SCIENCE RESEARCH COUNCIL

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About the Report

Beginning in 2013, the SSRC has collaborated with the ACLU to provide autonomous research as a contribution to a sound evidence basis on topics on the ACLU agenda. This editorially independent report presents the results of a quantitative study designed to explore how discriminatory lending practices might affect the intergenerational transfer of wealth.

About the Authors

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Executive Summary

The causes and consequences of the subprime boom, housing market collapse, and financial crisis hold tremendous significance for policymakers and activists seeking to ensure a strong and fair economy. Coming out of the Great Recession, one of the most pressing economic problems is the widening racial wealth gap. In the lead-up to the financial crisis, economic opportunity remained deeply unequal across racial lines, but economic trends suggested that America was on a path toward narrowing the yawning wealth disparities between white and black families. Deeply rooted economic inequality, however, fueled some of the most harmful lending practices, allowing financial institutions to engage in discriminatory and predatory lending that accelerated the financial collapse. Looking back, it is clear that racial discrimination played a pivotal role in the housing market crash.

This report looks forward. It examines the likely effect of the financial crisis on the racial wealth gap for the next generation. What it uncovers is a tale of two recoveries: among families that owned homes, white households have started to rebound from the worst effects of the Great Recession while black households are still struggling to make up lost ground. The divergent recoveries are important in the immediate term, but they are also an especially ominous sign for the future. Unequal opportunity to rebuild wealth coming out of the crisis is leading to widening racial disparities. The racial wealth gap, in other words, is now on track to compound over time. This trend has urgent implications for the future of racial justice in America, and it should inform policymaking strategies aimed at guaranteeing fair economic opportunities in the coming years.

This report analyzes the effects of the Great Recession on the racial wealth gap among homeownership families in order to identify racially disparate trends in the current recovery and extrapolate how those effects will reverberate generations into the future. It puts forward several key findings, highlighted in the following pages.

1.

In the recovery, race matters.

From 2007 to 2009, household wealth, with and without home equity, dropped sharply for black and white families. But during the crucial recovery period of 2009 to 2011, black and white families had very different experiences. In that period, white wealth levels, excluding home equity, began to show signs of recovery: median white household wealth exhibited zero loss. During that same time period, however, black households continued to experience severe declines, with the typical black household losing 40 percent of non-home-equity wealth. Similarly, black and white wealth levels, including home equity, each dropped significantly during the 2007–2009 period. During the 2009–2011 period, however, the typical white family’s losses slowed to zero, while the typical black family lost an additional 13 percent of its wealth. (At the time this study was conducted, 2011 was the most recent year for which data were available in the dataset used for this research.)

2.


A generation from now, black family wealth will still be more severely impacted than white family wealth.

One of the most important markers of economic opportunity is a family's ability to support its children's economic future by helping to pay for college or down payments on a home or by leaving an inheritance. Deep losses to a family's wealth, especially losses to home-equity wealth, can drastically diminish the ability to assist children in these ways, which is why understanding the effects of the Great Recession on the next generation is so important. And the racial effects appear to be profound. As this report finds, the Great Recession will continue to impact black families more severely in the future in terms of lost potential wealth. By 2031, white wealth is forecast to be 31 percent below what it would have been without the Great Recession, while black wealth is down almost 40 percent. For a typical black family, median wealth in 2031 will be almost \$98,000 lower than it would have been without the Great Recession.

3.

Without policy actions to remedy it, the racial wealth gap will be significantly greater in the next generation because of the differential impact of the Great Recession.

As a result of the financial crisis, the racial wealth gap will continue to grow well into the next generation. If economic trends had continued without the shock of the Great Recession, the ratio of white to black median wealth would have been forecast to drop from 4.4 times greater in 1999 to 4.0 times greater by 2031. But given the impact on black family wealth of the financial crisis, by 2031 the racial wealth gap will instead grow: the typical white household's wealth is projected to be 4.5 times that of the typical black household's wealth. This increased disparity will be even more profound from the perspective of home equity wealth. Without the Great Recession, home equity values for black and white families at the same income and education levels were headed toward parity by 2050. As a result of the Great Recession, however, the gap between black and white home equity will likely remain large decades into the future.

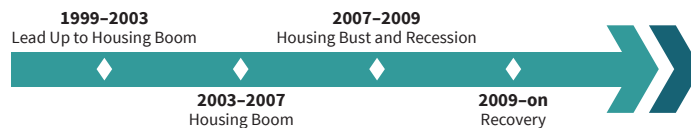


These findings offer an important lens for understanding the economic recovery and for charting a path forward. The financial crisis was sparked by a housing market collapse that had its roots in racial discrimination. It resulted in mass foreclosures that impacted racial minorities with disproportionate ferocity. The aftereffects of the Great Recession continue to deepen racial inequality. Policymakers should consider these findings in crafting economic interventions. The ongoing effects of the housing crisis on the racial wealth gap have implications for several pressing policy areas, including reform of the secondary mortgage market, access to credit, and regulation of the mortgage servicing industry. To the extent that solutions for the housing and mortgage markets do not squarely confront the widening racial wealth gap, this study shows that the current dynamics will reinforce racial inequality for a generation or more to come.

Introduction

A considerable body of research exists on foreclosure rates among people of color and on their higher likelihood of receiving subprime loans. There has been less research, however, on the long-term consequences of these discriminatory lending practices on households and families, particularly families of color. This study examines how discriminatory lending practices and the Great Recession will likely affect disparities in wealth and home equity between white and black households for generations to come.

Using a unique dataset, the Panel Study of Income Dynamics (PSID) of the University of Michigan, this study examines changes in wealth and home equity within the same households over time and approximates the relationships between wealth and home equity across several generations. The PSID is a representative survey of US families begun in 1968 that comprises a range of social, economic, and demographic questions. The same households are surveyed each time, and when children in these households grow up and start their own households, they are added to the survey. The PSID provides researchers with the unique opportunity to analyze change over generations in American households. The dataset is also one of the few that capture household wealth, which is otherwise not widely measured in the United States. Wealth is notoriously difficult to measure, partially because the value of many assets, such as stocks, bonds, and real estate, is constantly varying.



Predatory loans in communities of color were partly responsible for the housing boom and subsequent housing crisis and Great Recession of the last decade. These loans, defined by unnecessarily high fees or risky features, such as complicated, changing interest rates, were far more prevalent in communities of color.¹ While the exact start and end dates of the housing crisis varied widely by location, the US Census Bureau shows the trajectory of both median and average home sale prices (see Figure 1). This trend and the index of home prices from Standard & Poors/Case-Shiller show the late 1990s to be the prelude to the housing boom.² This was followed by the boom (roughly 2003 to 2007), the bust and Great Recession (2007-2009), and the recovery. The research that follows, which includes analysis of households that reported owning a home, focuses on the pre-boom period starting in 1999 to up to 2011, after housing prices fell sharply (and the most recent year for which data are available in the PSID). Because of the very small number of Latinos who owned a home that were surveyed in the PSID during this period, this research focuses on black and white households only.³ For some limited analysis of wealth in Latino households, see the end of this section.



**THIS RESEARCH ON THE IMPACTS OF DISCRIMINATORY LENDING
ASKS THREE SETS OF BASIC QUESTIONS:**

1.

How have variables such as family wealth and home equity changed in the United States from the period before the housing boom began to today? How have these changes differed across racial groups?

2.

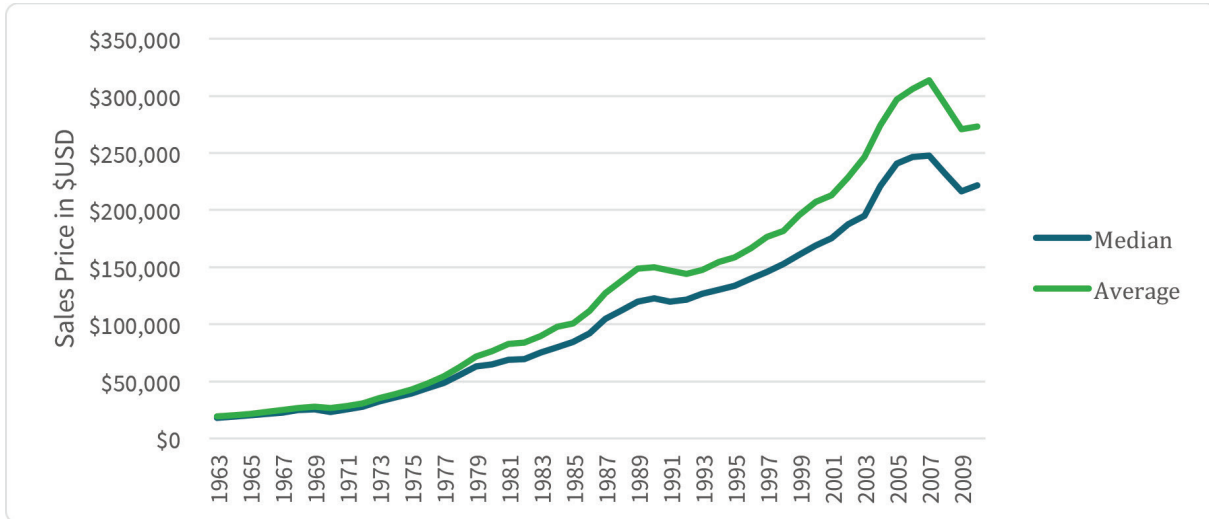
How important is homeownership as a proportion of wealth in US households? Do differences exist across racial groups?

3.

How might discriminatory lending practices and their consequences for household wealth influence the next generations? Do these impacts differ by racial group?

We conclude that the Great Recession disproportionately impacted, and continues to impact, black families, and that the effects of this disparity in wealth loss due to the subprime crisis will persist across the next several generations.

FIGURE 1. NEW HOME SALES PRICES, 1963–2011



Source: US Census Bureau, “Median and Average Sales Prices of New Homes Sold in United States,” <https://www.census.gov/construction/nrs/pdf/uspricemon.pdf>.

Why Are Latino Households Not Included in This Research?

The PSID does collect data on Latinos. However, only 149 Latino households surveyed owned a home at some point during the survey period, a requirement for inclusion in this analysis. In addition, the geographic distribution of Latinos varies far more by state than white and black populations, as more than one in three (36 percent) Latinos in 2012 lived in California alone. This highly concentrated geographic distribution makes it difficult to compare values for Latinos with those for blacks and whites. For these reasons, we are unable to include Latinos in this research.

It is possible, however, to analyze some wealth data for these 149 Latino households, revealing startling trends. In 2007, median Latino household wealth was \$156,500. When Latino home equity is excluded, however, Latino median wealth falls to only \$14,000, making very clear the importance of homes at the peak of the housing boom to Latinos’ wealth portfolio. By 2011, median Latino wealth, including home equity, had dropped to \$50,000, and the typical household saw a 49 percent decline in total wealth. Median wealth excluding home equity, which comprises mostly savings, dropped to only \$5,000, and a typical household saw a decline of 55 percent in wealth when home equity is excluded. These figures are not adjusted for inflation.

Changes in Wealth and Home Equity from 1991 to 2011

Any analysis of racial wealth disparities arising from the Great Recession must be framed by the racial dynamics of the subprime lending practices that set the stage for the financial crisis. Subprime lending and race were tightly linked. A joint report from the US Department of Housing and Urban Development and the US Department of the Treasury found that, as of 2000, “borrowers in black neighborhoods [were] five times as likely to refinance in the subprime market than borrowers in white neighborhoods,” even when controlling for income.⁴ Indeed, “Borrowers in *upper-income* black neighborhoods were twice as likely as homeowners in *low-income* white neighborhoods to refinance with a subprime loan.”⁵ Scholars have identified these dynamics as creating a “dual mortgage market,” characterized by “a different mix of products and by different types of lenders,” allowing subprime lenders to “disproportionately target minority, especially African American, borrowers and communities, resulting in a noticeable lack of prime loans among even the highest-income minority borrowers.”⁶

Many studies have found that, throughout the subprime market, black borrowers stood a significantly higher chance of receiving higher-cost and higher-risk loans than white borrowers, even when controlling for factors related to creditworthiness.⁷ The unsurprising result was a high level of racial disparities in rates of foreclosure. As of 2010, “African Americans and Latinos [were], respectively, 47 percent and 45 percent more likely to be facing foreclosure than whites.”⁸ One influential study found that “the greater the degree of Hispanic and especially black segregation a metropolitan area exhibits, the higher the number and rate of foreclosures it experiences.”⁹

Key Terms

Discriminatory lending is when financial institutions push predatory loans on customers based on their race, ethnic origin, religion, or sex.

Home equity is the value of the principal home minus the value of any remaining mortgages.

Predatory lending is when a financial institution takes unfair advantage of a customer by providing a loan that is likely to harm the borrower economically by resulting in default or foreclosure, typically by charging excessively high fees, imposing unnecessarily high or complicated interest rates, or including other terms that carry excessive risk.

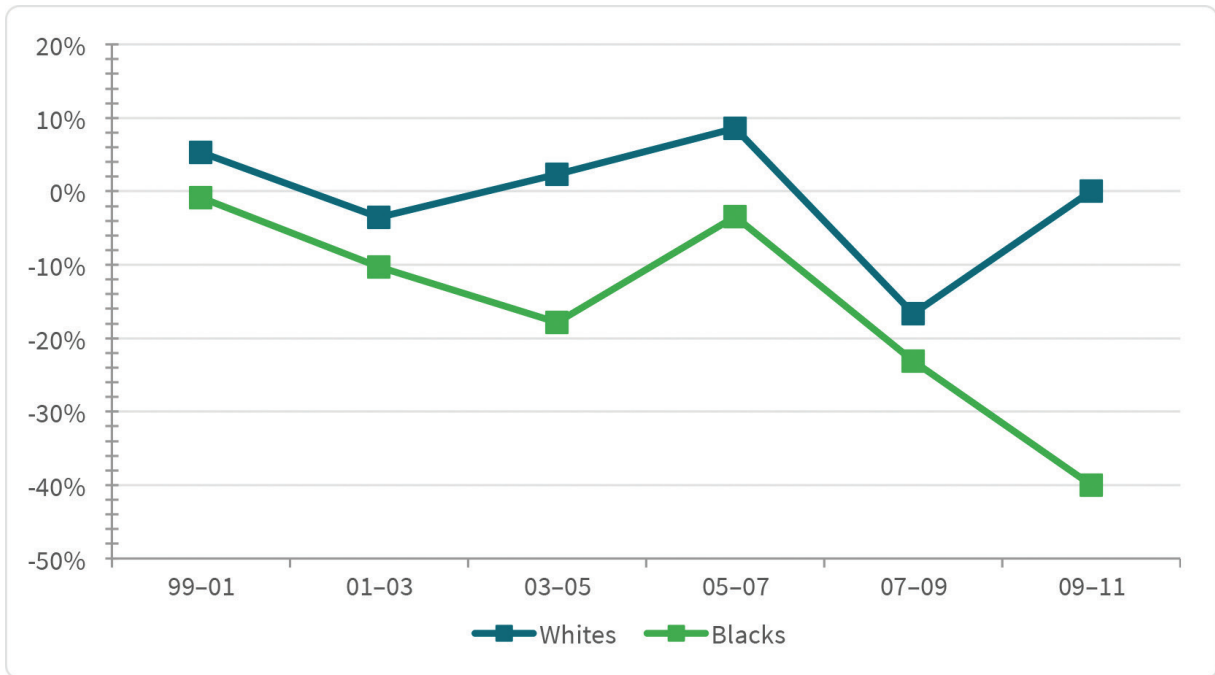
A **subprime mortgage** is a loan with a higher-than-average interest rate. Subprime mortgages were designed for individuals who do not qualify for a conventional mortgage.

Wealth is defined in the PSID as the sum of the value of nine assets minus all debts. These assets include checking/savings accounts, farms and businesses, other real estate, stocks, all vehicles, any other assets, annuities, retirement accounts, and home equity.

Against that backdrop, this report examines how the housing market collapse and broader financial downturn have unfolded along racial lines. What follows is an analysis of trends in wealth and home equity using data every two years from 1999 to 2011. Only households that reported owning a home in at least one of these years are included in the analysis.¹⁰

During this dozen-year period, white and black households both saw peak wealth in 2007 and declines after. However, the data also reveal very important differences by race between 2009 and 2011. White wealth levels, excluding home equity, showed signs of recovery, with the median white household experiencing zero losses in wealth excluding home equity. During that same period of 2009 to 2011, black households continued to experience severe declines, with the typical black household losing 40 percent of wealth, excluding home equity. Figure 2 shows the percentage change in wealth excluding home equity from 1999 to 2011 for these two groups. Each point represents the percentage change in wealth excluding home equity of the typical household between the two years shown. For example, the point 99-01 shows median change in household wealth between 1999 and 2001. The differences for each pair are statistically significant.

FIGURE 2. PERCENTAGE CHANGE IN HOUSEHOLD WEALTH (excluding home equity)



As Figure 2 illustrates, in the 2007 to 2009 period, wealth declined for both groups. White wealth excluding home equity dropped by 17 percent; blacks lost 23 percent of their wealth, not including the value of their homes. But starting in 2009, white wealth trends began an uptick, whereas blacks saw a 17-percentage-point further decline.

These large losses for blacks are indicative, among other things, of the higher interest payments on home loans. Researchers at the Urban Institute and others found that blacks saw the largest declines in retirement savings accounts due to pressures from the recession, including the need to withdraw money in order to cover the rising costs of their loans.¹¹ While black households continued to raid their retirement savings accounts, the typical white household was not experiencing this pressure.

To explore this finding further, we examine the differences in wealth levels between white and black households in the period leading up to and during the Great Recession.

Both total wealth and the proportion of that wealth held in home equity vary tremendously by race. **In 2007, total white median wealth, or the wealth of the typical white household, was \$244,000; for blacks, it was just over one quarter that level, or \$63,060 (see Figures 3a and 3b).**

FIGURE 3A. TOTAL WEALTH VS. WEALTH EXCLUDING HOME EQUITY: WHITE HOUSEHOLDS

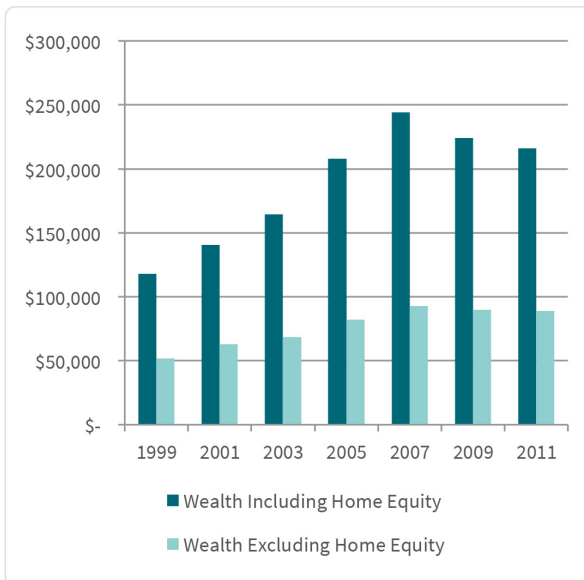
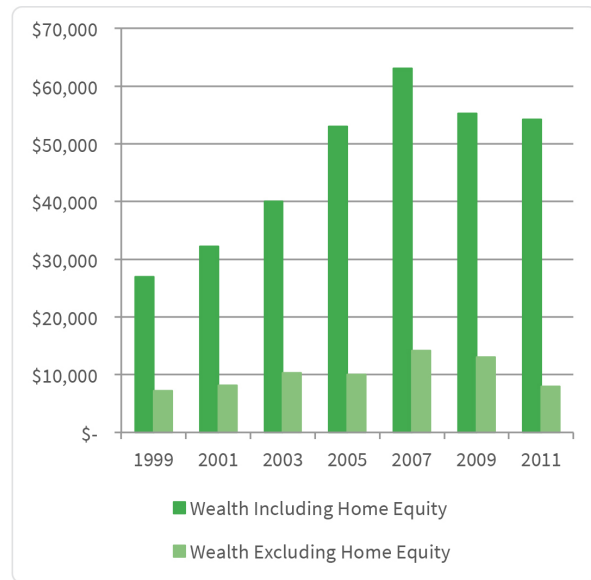


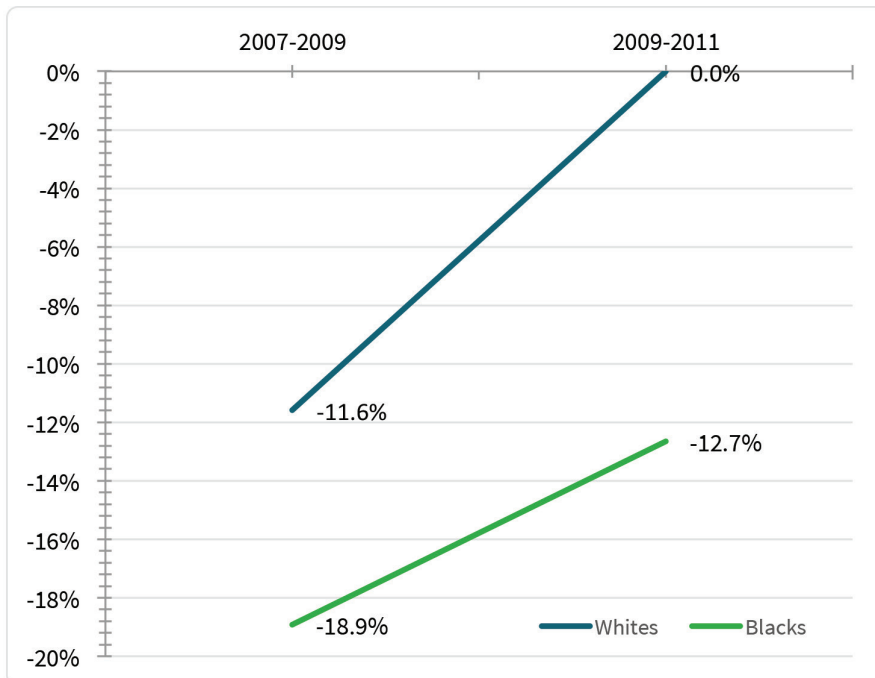
FIGURE 3B. TOTAL WEALTH VS. WEALTH EXCLUDING HOME EQUITY: BLACK HOUSEHOLDS



Given the interest of this study in understanding the impact of home lending practices, it is useful to compare the median wealth of white and black households with and without including the value of their homes. Blacks and whites both have a considerable portion of their assets in home equity, but for blacks, it is a far more important part of their wealth portfolio. **In 2007, median wealth excluding home equity was \$14,200 for blacks as compared with over six times that amount, \$92,950, for whites. Home equity, therefore, made up 51 percent of total wealth for the typical white homeowner in 2007. For the typical black homeowner this same year, on the other hand, home equity constituted a far larger 71 percent of total wealth.**

Given that the bulk of black wealth is held in home equity, we would expect that blacks would experience greater losses in total wealth on a percentage basis as a result of the housing crisis and subsequent Great Recession. Figure 4 shows the percentage change in wealth of the typical white and black households over each two-year period from 2007 through 2011. As the graph illustrates, black households experienced significantly greater declines in wealth, on a percentage basis, compared to whites. Between 2007 and 2009, a typical black household's wealth declined by 19 percent, compared to a 12 percent decline for whites. More notably, while the typical white household experienced zero losses between 2009 and 2011 (when the blue line reaches 0 percent change), the typical black household continued to experience significant declines in wealth over the same period.

FIGURE 4. PERCENTAGE CHANGE IN HOUSEHOLD WEALTH, INCLUDING HOME EQUITY, 2007-2011

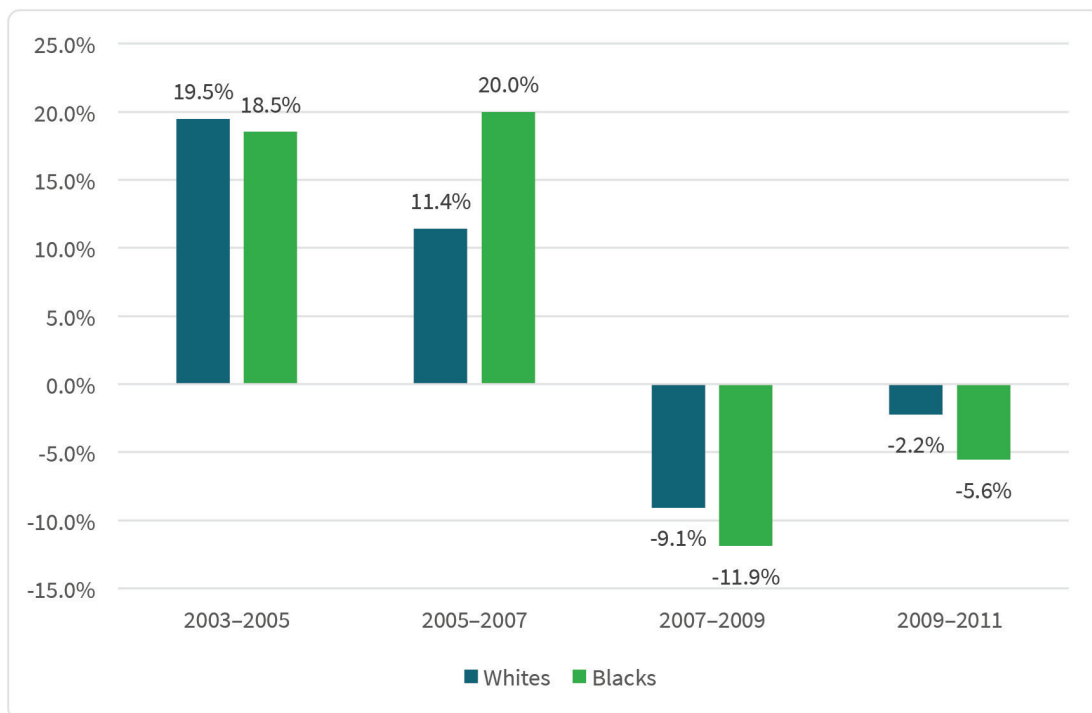


The fact that blacks hold the bulk of their wealth in home equity likely explains, at least in part, why black wealth, on a percentage basis, declined more than white wealth during the housing bust and subsequent Great Recession.

To confirm the preceding supposition, we examine whether these declines in home equity were evenly distributed across races or if blacks lost more home equity than whites.

Figure 5 displays the percentage change in household home equity for all who owned a home in the previous year. As can be expected during a housing boom, the period from 2003 through 2007 yielded positive gains in home equity values for both racial groups. From 2007 through 2011, both groups experienced losses, with greater losses for blacks. Between 2007 and 2009, typical white home equity declined by 9 percent while typical black home equity declined by 12 percent. This disparity may stem from the fact that blacks were more exposed to predatory loans and other types of toxic mortgages and ballooning interest rates as compared to whites, leading to disparate rates of delinquency and foreclosure.¹² Further, these losses slowed to only 2 percent between 2009 and 2011 for white households, but for blacks, home equity values continued to decline by 6 percent. While white home equity began to recover quickly after the housing crisis stabilized, this was not the case for blacks; again, this difference likely emerges as a result of blacks' disproportionate exposure to predatory loans and other deceptive mortgage schemes.¹³

FIGURE 5. PERCENTAGE CHANGE IN HOME EQUITY DURING AND AFTER THE HOUSING BOOM

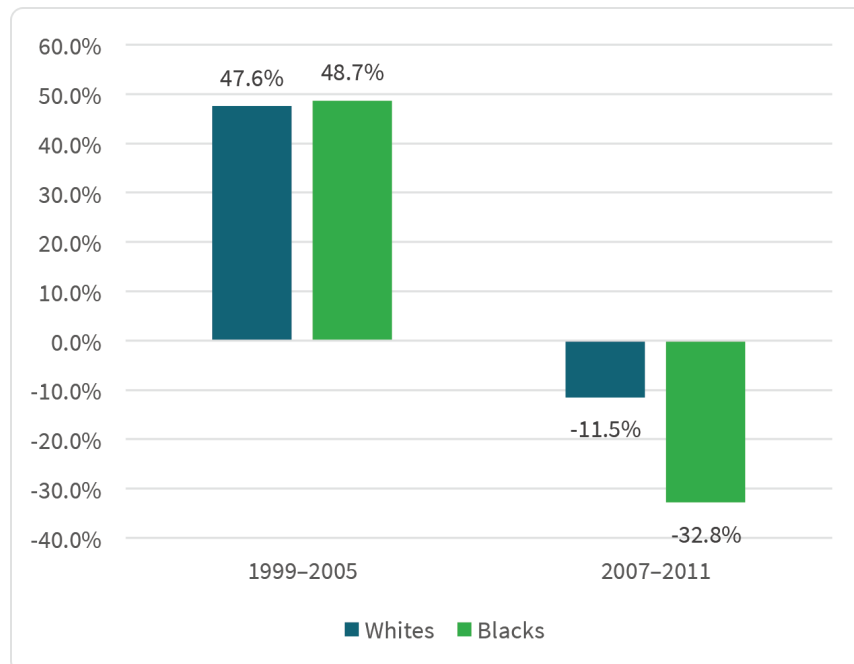


By 2009 the housing boom, buttressed in large part by subprime mortgages and predatory loans, came to an end. Many Americans fell far behind on their mortgages, and banks, fearful of losing their investments, began to foreclose on thousands of homes around the country.

Dividing this dozen-year period into two important phases, the housing peak and the housing bust, is useful for illustrating the relative benefits of the peak and relative losses in the bust years between these two racial groups. In the peak housing boom period, 1999–2005, whites and blacks reaped very similar wealth gains (see Figure 6). Later, however, losses in wealth for the typical black household far outstripped those of the typical white household: a 33 percent loss for blacks compared to a 12 percent loss for whites between 2007 and 2011. These trends further demonstrate the disproportionate impact of the foreclosure crisis on black household wealth.¹⁴

One might counter the preceding results by saying that part of the story of greater wealth losses among blacks could be due to the fact that they held more of their wealth in their homes and thus it is unsurprising that a housing bust would affect them disproportionately. However, the significant disparities in declines in wealth between blacks and whites, excluding home equity, previously discussed (see Figure 2), lends support to the notion that the uneven distribution of subprime loans—and not simply the disproportionate amount of wealth blacks hold in home equity compared to whites—is a key explanatory factor in the overall disparities in percentage change in total wealth between blacks and whites between 2007 and 2011 (see Figure 6).

FIGURE 6. PERCENTAGE CHANGE IN TOTAL WEALTH: HOUSING PEAK TO HOUSING BUST



Forecasting Future Disparities

Moving one step further with this analysis and in order to understand the impacts of the Great Recession on household wealth in the future, we begin by comparing actual wealth levels in 2011 to what they might have been absent a recession. To forecast these values, we calculate the median growth rate in wealth from the pre-housing boom period (1999 up to 2001), which was approximately 14 percent for whites and blacks over the two-year period. Next, we apply this growth rate to the median wealth of households in 2003 in order to forecast what wealth would have been without the recession. We use the median growth rate between 1999 and 2001, as this was the period before the housing bubble truly hit its stride. This growth rate does, however, assume a relatively strong economic climate. As such, the forecasted wealth levels are an optimistic projection, and assume that the strong economic climate observed in the early part of the decade continued on into the next decade.

On a percentage basis, the differences in actual vs. forecast wealth in 2011 for black and white households were about the same: 20 and 22 percent, respectively. Figures 7a and 7b display these actual vs. forecasted values. The difference in forecast vs. actual wealth for whites in 2011 is slightly greater than that of blacks because white wealth was so much greater at the outset. If pre-crisis trends had continued, white households were projected to keep increasing this wealth every year. So even though blacks lost more of their actual wealth, whites lost more “potential” wealth—the wealth they would have accrued if their larger wealth at the outset had continued to grow at pre-boom rates.



FIGURE 7A. ACTUAL VS. FORECASTED BLACK WEALTH

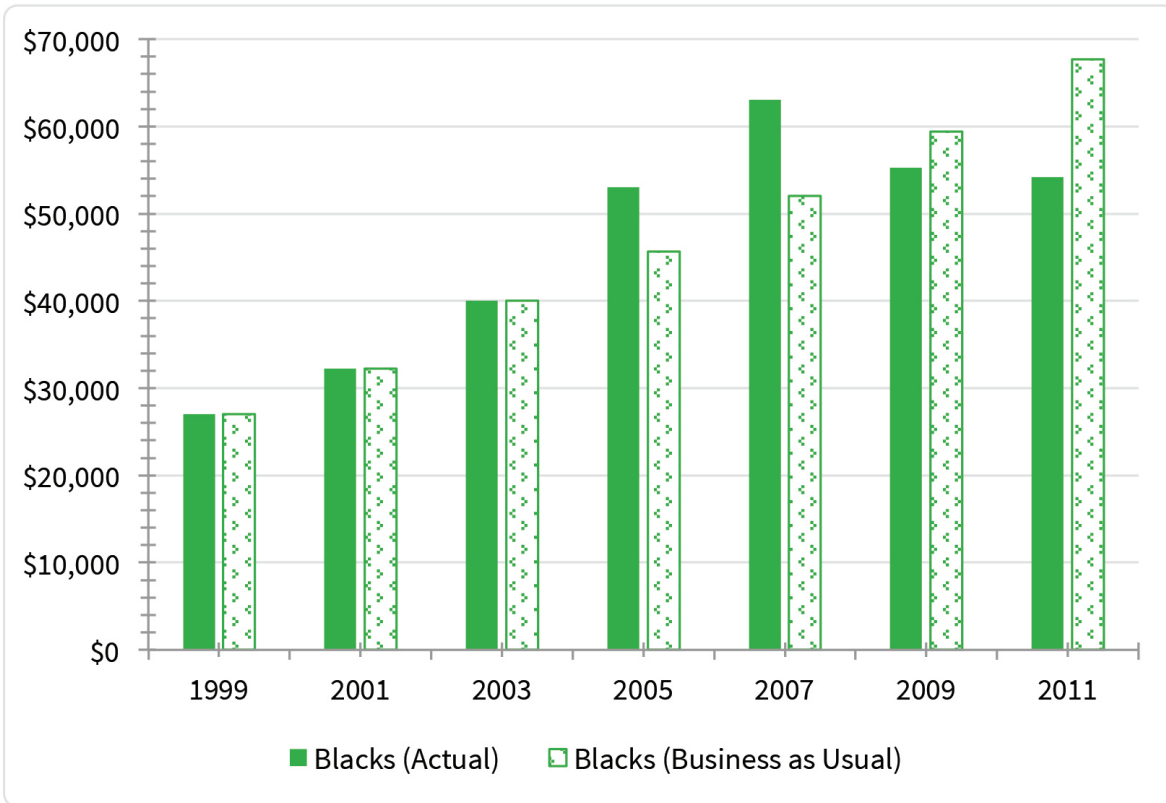
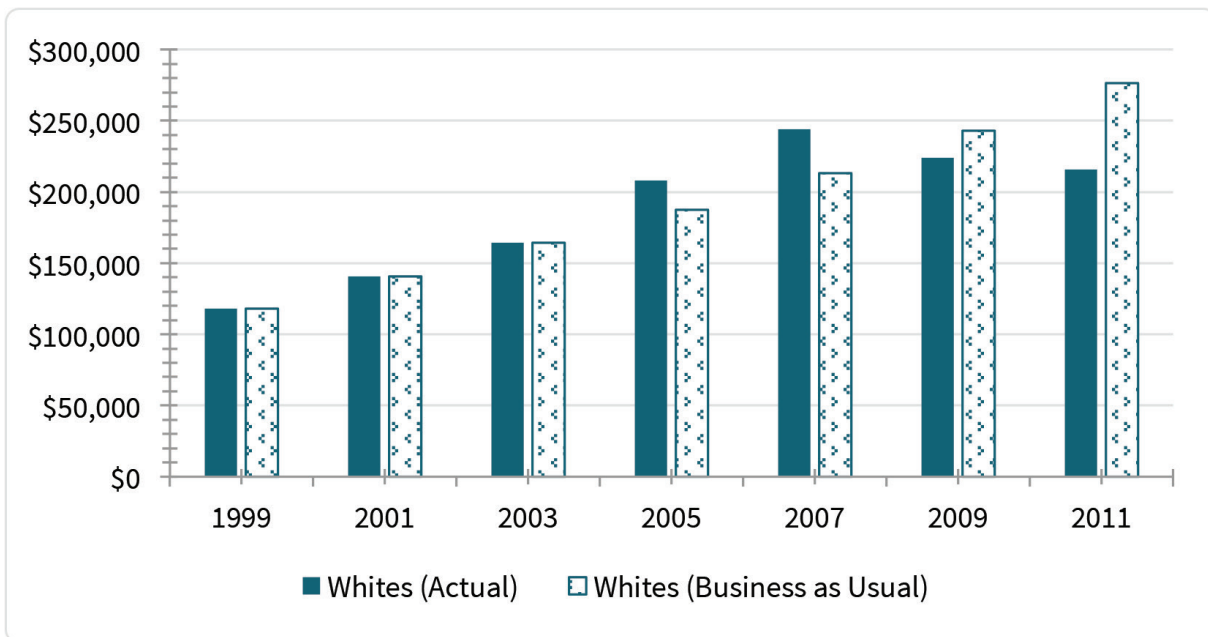


FIGURE 7B. ACTUAL VS. FORECASTED WHITE WEALTH



As discussed for Figures 7a and 7b, white households were showing signs of recovery by 2011, while black households were still experiencing significant losses. This evidence suggests that the Great Recession affected black households for longer than it did white households.

FIGURE 8A. FORECAST OF WHITE HOUSEHOLD WEALTH: GREAT RECESSION VS. BUSINESS-AS-USUAL SCENARIOS

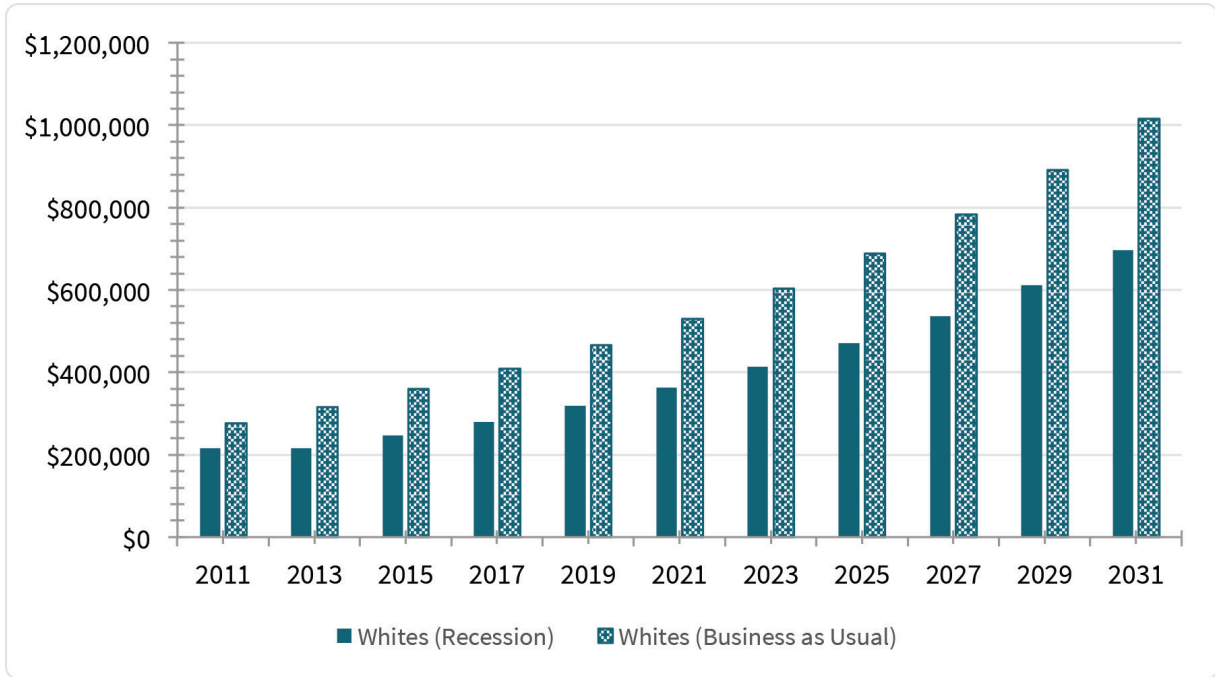
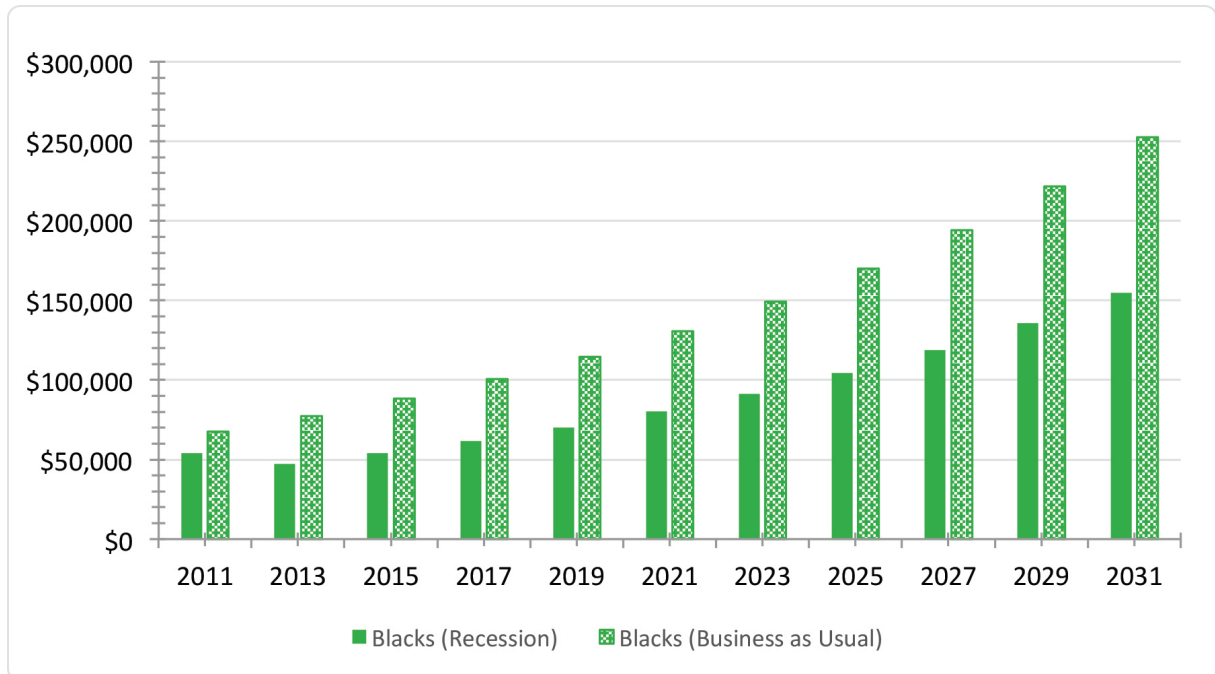
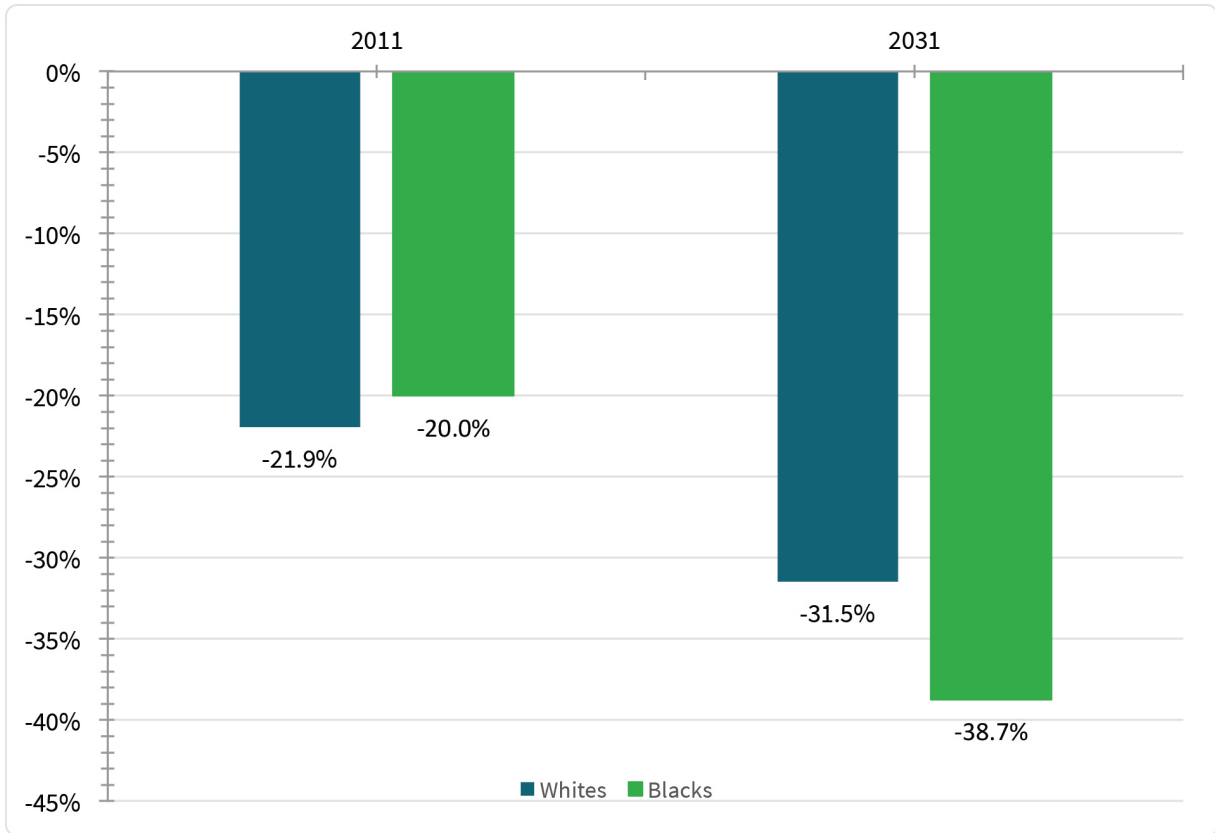


FIGURE 8B. FORECAST OF BLACK HOUSEHOLD WEALTH: GREAT RECESSION VS. BUSINESS-AS-USUAL SCENARIOS



In order to understand the long-term consequences of these continued losses on racial wealth disparities, it is useful to forecast the future wealth of each racial group—assuming that the observed wealth growth rates of each group between 2009 and 2011 remained constant through 2013 as the recession’s after-effects lingered. After 2013 we are making the assumption for this calculation that each group will return, more or less, to its pre-crisis, pre-housing-boom growth rate—the rate experienced between 1999 and 2001. This is an admittedly optimistic assumption. We use these growth rates for illustrative purposes, assuming a best-case scenario, though it is likely that black households did not rebound as quickly as white households, even after 2013, given that foreclosures were disproportionately in communities of color and housing prices in those places are experiencing slower rates of recovery.¹⁵

FIGURE 9. PERCENTAGE DIFFERENCE IN WEALTH: IMPACT OF THE GREAT RECESSION

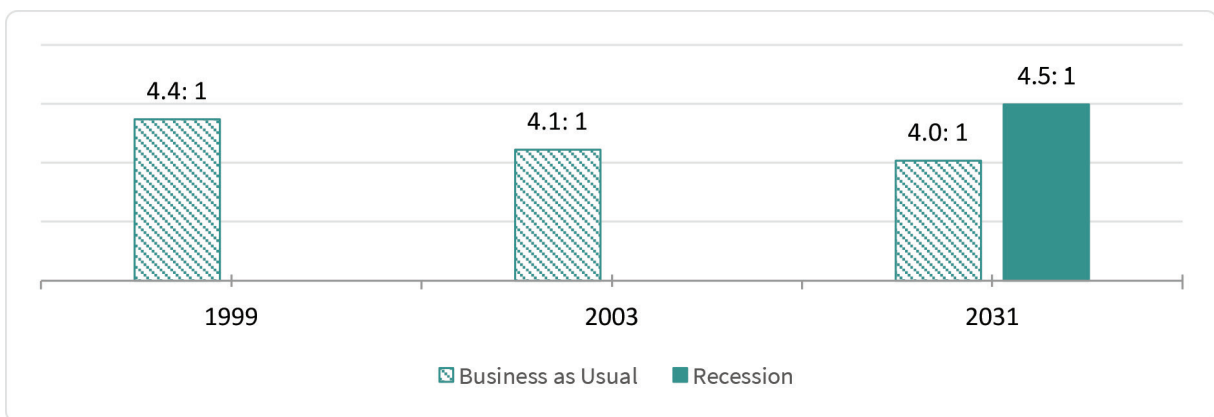


Figures 8a and 8b compare a business-as-usual scenario (if wealth growth rates stayed the same as they were in the pre-boom period) to forecasted wealth levels taking the Great Recession into account. In both cases, these rates are projected forward to 2031, two decades from the most recent data. This twenty-year projection is one way to capture how the recession will impact the same households twenty years in the future. A child who was ten in 2011 would be thirty in 2031, thereby enabling analysis of whether the Great Recession will impact the next generation of black households differently from white households.

Figure 9 summarizes the results of these forecasts: The Great Recession will continue to affect blacks more severely in terms of lost potential wealth in the future. By 2031, white wealth is forecast to be 31 percent below what it would have been without the Great Recession, while black wealth is down almost 40 percent. For a typical black family, **median wealth in 2031 will be almost \$98,000 lower than it would have been without the Great Recession.**

The disparity between black and white wealth would have been large without the Great Recession. In 1999 the ratio of median white wealth to black wealth was 4.4. However, trends were shifting and black wealth was slowly approaching white wealth levels. By 2003 the ratio of white to black median wealth dropped to 4.1. By 2031 the ratio of white to black median wealth would have been forecast to drop to 4.0, that is, white wealth would be four times that of black wealth. However, as a result of the Great Recession and its disproportionate impact on black wealth, this already severe disparity is projected to increase even further. **By 2031 the typical white household's wealth is projected to be 4.5 times that of the typical black household's wealth.** Figure 10 highlights the increasing disparities in wealth of blacks and whites projected twenty years in the future as a result of the Great Recession.

FIGURE 10. THE EFFECTS OF THE GREAT RECESSION ON WEALTH DISPARITIES BETWEEN WHITES AND BLACKS: RATIO OF WHITE TO BLACK HOUSEHOLD WEALTH



Impacts on Home Equity Values of the Next Generation

The preceding discussion documents the extent to which the impacts of the recession on household wealth were unevenly distributed across white and black households, with the typical black household experiencing greater losses in total wealth, on a percentage basis, between 2007 and 2011 compared to the typical white household. Additionally the typical black household continued to experience losses in wealth between 2009 and 2011 while the typical white household was breaking even over the same period. These disparate impacts will undoubtedly continue to affect the next generation.

In order to explore the possible magnitude of the intergenerational impacts of the recession, we look into the relationship between parent household wealth and the home equity value of their adult children. Using the PSID dataset that tracks households over several generations, we examine wealth levels of the parents in 1984 and the home equity values of their adult children, ages thirty to forty, in 2003. The result is that in black and white households, parent wealth is a statistically significant predictor of an adult child's home equity value, controlling for the income and education level of the adult child.¹⁶ However, parent wealth is a stronger predictor of future home equity of black families compared to white families.

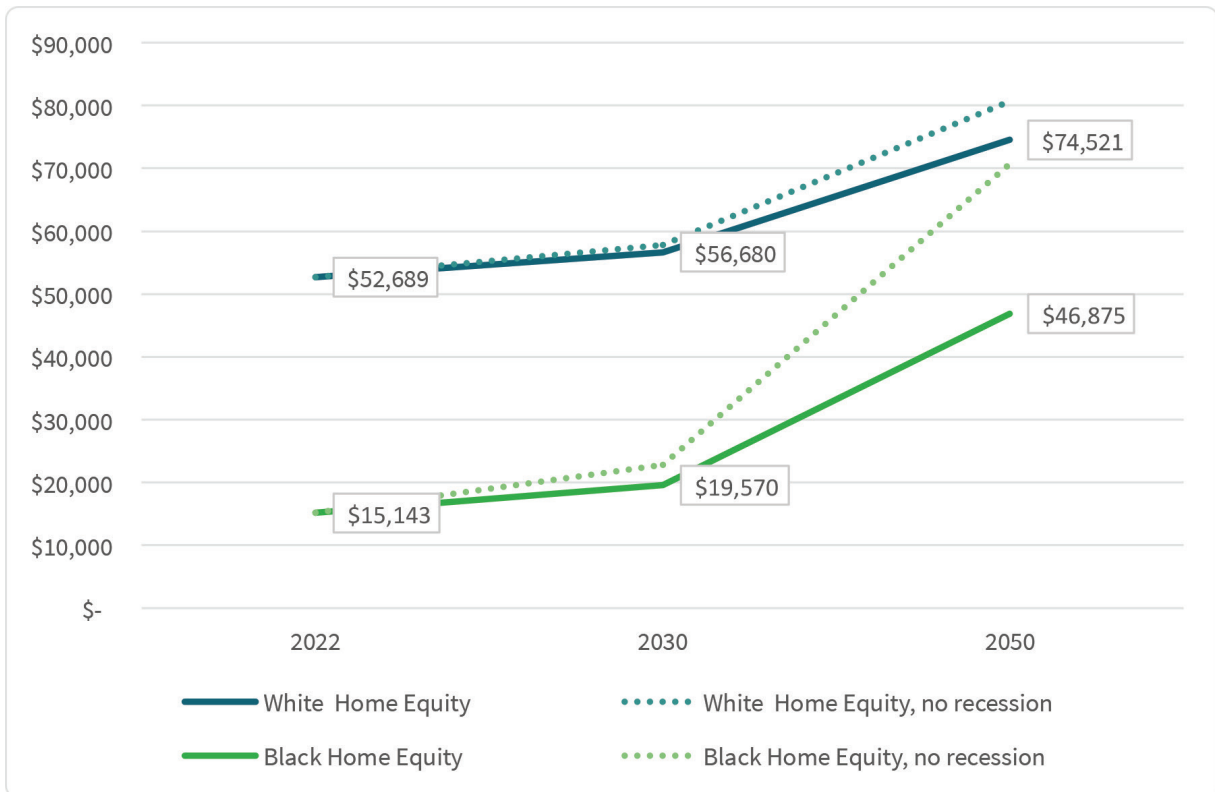
In order to illuminate the long-term consequences of wealth losses on the disparities in home equity across racial groups, we forecast the future wealth of each racial group and calculate a projected level of home equity for the next generations. Using parent wealth values projected earlier under the two scenarios, a business-as-usual projection and a recession projection, we forecast the home equity value of their children, ages thirty to forty, nineteen years into the future. We use these age ranges in order to apply the relationship observed between parent wealth in 1984 and the home equity value of their adult children, ages thirty to forty, in 2003.

Since the original wealth calculations (from which the forecasted values are based) are only for households that owned a home sometime between 1999 and 2011, the projections of future home equity values of the next generations are for those whose parents or grandparents owned a home at some point between 1999 and 2011. We use this subgroup of households, as these people are the most likely to have been impacted by the discriminatory lending practices of the Great Recession.

In order to forecast the impact on home equity across generations, we apply the same relationships observed in the data between parent wealth in 1984 and the home equity value of their adult children

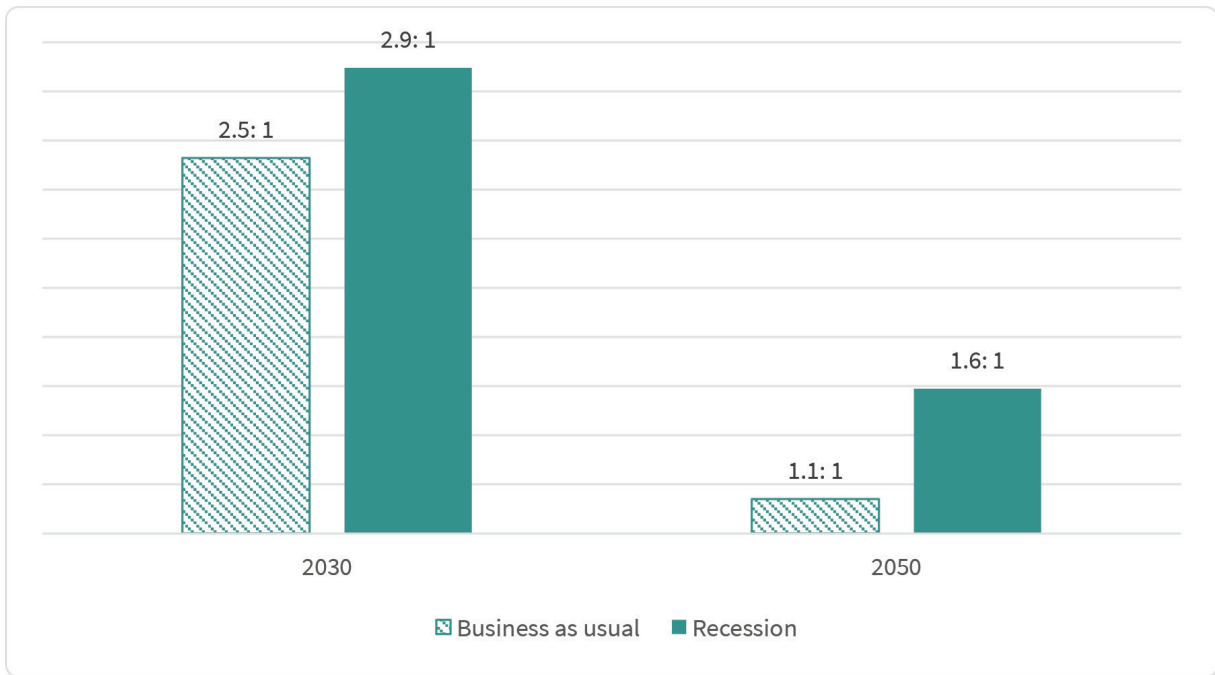
(ages thirty to forty) in 2003. We estimate the income and education levels of the adult children as the median value for each racial group observed in 2003, as provided in the PSID. For white households, the median income is \$60,000 and median education level is fourteen years of schooling. For black households, the median income is \$37,164 and median education level is twelve years of schooling. We assume that median income levels increase by 2 percent each year for each racial group. In Figure 11, we chart the forecasted home equity values for the adult children, ages thirty to forty, in 2022, measuring parent wealth in pre-Recession 2003 and comparing those home equity values with forecasted home equity values for adult children, ages thirty to forty, whose parents and/or grandparents were likely impacted by the recession. **As the dotted lines illustrate, without the Great Recession, black and white home equity values for this group were headed toward parity by 2050. As a result of the Great Recession, however, the gap between black and white home equity remains large, decades into the future.**

FIGURE 11: THE EFFECTS OF THE GREAT RECESSION ON HOME EQUITY FOR THE NEXT GENERATION OF WHITES AND BLACKS (AGED 30-40)



Another way to examine the projected disparities in home equity between racial groups is to explore the ratio of white household home equity to black household home equity with and without a recession. Figure 12 displays the results of this analysis. It is clear that, as a result of the Great Recession, the gap in home equity value between white and black households will be more severe. Using parent wealth levels in the pre-Recession year of 2003, the forecasted home equity for white adult children (ages thirty to forty) by 2022 would have been 3.5 times that of black adult children, and that gap was projected to narrow. **Without the recession, by 2050, home equity values for white and black households earning their respective median income levels may have been almost on par with each other. However, as a result of the wealth lost by black households during the Great Recession, by 2050, white home equity is projected to be 1.6 times that of black households.**

FIGURE 12. THE EFFECTS OF THE GREAT RECESSION ON HOME EQUITY DISPARITIES BETWEEN WHITES AND BLACKS: RATIO OF FORECAST WHITE TO BLACK HOME EQUITY



The previously referenced projections (Figure 12) for home equity ratios of adult children in 2030 and 2050 are based on the wealth levels of their parents in 2011 and 2031 (projected wealth), respectively. They are calculated using the median income and education levels of whites and blacks. Medians are helpful for understanding the impacts on a typical family; however, it is also interesting to examine the possible impacts of the recession on two hypothetical families with similar earnings and educational attainment levels.



A Tale of Two Households: Illustrating Impacts on the Next Generation

FAMILY A is white, and their total wealth in 2003 is around \$164,000. As a result of the Great Recession, their wealth is \$216,000 by 2011, approximately \$61,000 less than it would have been without the recession. By 2030, nineteen years later, Family A's oldest son, Adam, has moved out and earned a college degree and has household income of approximately \$108,000. With financial help from his parents, he is able to provide a down payment of approximately \$97,000 for a home. This amount is only about 1 percent, or \$1,000, less than he would have been able to afford had the recession not reduced his parents' wealth by \$61,000.

By 2050, Adam's daughter Adriana has earned a college degree and moved out on her own. Her household income is \$132,000. Drawing on the resources of her parents, and possibly grandparents, Adriana purchases a home with a \$120,000 down payment. This amount is only around 5 percent, or \$6,000, less than she could have afforded had the recession not impacted the wealth of her grandparents.

Now let's imagine a second family. **FAMILY B** is black, and their total wealth in 2003 is \$40,000. By 2011, as a result of the Great Recession, their wealth is \$54,000, \$14,000 less than it would have been without the recession. By 2030, Family B's oldest daughter, Betty, has purchased a home. Just like Adam in Family A, she has graduated from college and earns the same \$108,000. Her home equity is only \$53,000, over \$3,000, or 6 percent, less than it would have been without the recession impacting her parent's wealth and subsequent ability to pitch in on a down payment.

Nineteen years later, in 2050, Betty's oldest son, Bert, has purchased a home. Bert follows a similar path as Adriana in Family A, with a college degree and an income of \$132,000. Bert's down payment is only \$85,000, almost \$24,000 less or 22 percent below what it may have been without the Great Recession.

This short, hypothetical scenario illustrates the differential impacts the Great Recession will likely have on the next generations of white and black households. By 2050, a white household's home equity may be only 5 percent below what it would have been without the Great Recession, while a black household, with the same income and education levels, may have a home equity value 22 percent lower than it could have been without the effects of the Great Recession.

Conclusion and Policy Implications

The research described demonstrates that the Great Recession impacted households unevenly. Black households experienced greater declines in household wealth, both when including and excluding the wealth they hold in their homes. Moreover, while the typical white household showed strong signs of recovery between 2009 and 2011, the typical black household continued to experience significant declines in wealth.

Among the sample of people who owned a home at some point between 1999 and 2011, home equity is a more significant proportion of total wealth for blacks than for whites. As such, a typical black household that was subject to a toxic mortgage had fewer resources to fall back on when home values plummeted and interest rates skyrocketed, compared to the typical white household.

The significant losses in wealth experienced by black households will likely create ripple effects, hampering the ability of the next generations of black households to catch up to whites in terms of total wealth and home equity values.

Through an illustrative forecasting exercise, we show that the gap between typical black wealth and white wealth (for those who owned a home at some point between 1999 and 2011) was narrowing, and that by 2031, without the impacts of the Great Recession, white wealth would amount to 4 times that of black wealth. As a result of the Great Recession, by 2031 the ratio of white to black wealth jumps to 4.5 to 1.

The home equity value of children is more closely related to the wealth levels of their parents for blacks as compared with whites. This finding highlights why losses of wealth for black households will affect the home equity values of their children more than it will for white households. Without the Great Recession, by 2050, home equity values for blacks and whites whose parents or grandparents owned a home at some point between 1999 and 2011 may have approached parity. As a result of discriminatory lending practices and the Great Recession, our analysis suggests that the next generations of black families will still have home equity values only 70 percent of their white counterparts.

The findings of this report should inform policymaking in areas that affect the economic recovery and access to the housing market. Among other things, these findings are relevant to policymaking in the following areas.

1. Reforming the secondary mortgage market

Many of the worst lending abuses during the subprime era grew out of incentives set by the secondary mortgage market, particularly the Wall Street banks that dominated that market during the boom. Loan purchasers provide the capital that fuels the lending industry, and their policies and practices thus have tremendous influence on mortgage origination. Debate continues over how to restructure the government-sponsored entities, such as Fannie Mae and Freddie Mac, which have traditionally been the primary actors in that market. Reforms should ensure that all of these players operate in a way that encourages inclusive lending and provides a disincentive for discrimination on the part of originators.

2. Opening access to credit

Legislation and regulations enacted in response to the financial crisis have aimed to prevent the kind of predatory lending that proliferated during the subprime boom. Increasingly, however, financial institutions appear to be going far beyond those wise restrictions, limiting access to credit to low-income individuals even when responsible credit options that would benefit borrowers exist. Such practices unjustifiably exclude many borrowers of color from the market and limit their ability to build wealth through home equity. Policymakers should carefully monitor current lending practices to ensure that low-income and minority communities are not being unfairly excluded, and to clarify that recent legislation does not support racially disparate limitations on access to credit.

3.

Regulating mortgage servicing

Just as race discrimination permeated subprime lending, the ongoing servicing of mortgage loans may adversely impact communities of color, as a result of intentional discrimination and facially neutral policies that exacerbate existing disparities. Government enforcement agencies should focus special attention on identifying and stamping out racial disparities in servicing practices. Policy reforms aimed at strengthening regulators or addressing abuses in the mortgage servicing industry should be specially attuned to the civil rights consequences of unequal exclusion from housing opportunity.

Notes

¹ American Civil Liberties Union, *Justice Foreclosed*.

² S&P Dow Jones, “S&P/Case-Shiller Home Price Indices.”

³ This research involved construction of two datasets from the PSID. The first dataset includes a total of 3,031 households questioned in each survey year between 1999 and 2011: 2,290 white (non-Hispanic) households and 741 black households. The second dataset includes households surveyed in 1984 whose adult children, ages thirty to forty, were also surveyed in 2003. This sample comprised 609 white households and 314 black households.

⁴ US Department of Housing and Urban Development and US Department of Treasury, *Curbing Predatory Home Mortgage Lending*, 47–48.

⁵ *Ibid.*, 48.

⁶ Apgar and Calder, “Dual Mortgage Market,” 102.

⁷ Bocian, Ernst, and Li, *Unfair Lending*, 3; Bocian et al., *Lost Ground*, 5.

⁸ Bocian, Li, and Ernst, *Foreclosures by Race and Ethnicity*, 10.

⁹ Rugh and Massey, “Racial Segregation and the American Foreclosure Crisis.”

¹⁰ This subsample of the population, those who have been or are currently homeowners, has higher overall wealth levels than the general population. *Median wealth levels* we refer to throughout this document are therefore substantially higher than median wealth for white and black households in the US population. The disparities between black and white former or current homeowner households are also considerably smaller than those between black and white households overall. The extent of missing data in this dataset is surprisingly low. PSID researchers attribute this to the fact that “PSID respondents have confidence in the interviewers and have been interviewed on numerous prior occasions” (see <http://psidonline.isr.umich.edu/Data/Documentation/wlth1984-2001.pdf>). To impute missing values, the PSID applies a multilevel, “hot deck method.”

¹¹ Bocian et al., *Lost Ground*, 17, 21; McKernan et al., *Less Than Equal*, 3–4.

¹² Bocian et al., *Lost Ground*, 21.

¹³ *Ibid.*

¹⁴ Bocian, Smith, and Li, *Collateral Damage*, 2; Bocian, Li, and Ernst, *Foreclosures by Race and Ethnicity*, 3.

¹⁵ Dreier et al., *Underwater America*, 5.

¹⁶ We acknowledge that parent wealth levels may also have affected adult education and adult income levels, and thus the independent variables in the model are not as conceptually independent as we would hope for in an ideal statistical model. However, using tests for multicollinearity across the variables, we found that correlations between parent wealth, child income, and child education levels were below 0.2, indicating that the variables are not highly correlated with each other.

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