Generate Revenue

While Serving The Underserved

How Bridging the Housing Gap Will Create a New Pipeline.

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We, as a country, have made huge strides since the civil rights movement of the 1960's. The U.S. luckily came to the realization that all of its citizens, regardless of race, must have the opportunity to succeed in every facet of life if our country was to succeed as a whole.The disparity in minority homeownership and access to capital for that purpose came to the forefront of the national discussion, which prompted Congress to pass the Fair Housing Act as part of the broader Civil Right Act in 1968. Despite this crucial piece of legislation, it was discovered that banks were engaging in a practice called redlining, which essentially identified low to moderate income neighborhoods and refused to make loans to any residents of the residents therein. This obviously had a disparate impact on minorities who made up the majority of residents in these low to moderate income areas. To combat this practice, the Community Reinvestment Act was signed into law in 1977 which required banks to ensure that all communities that they served were afforded equal access to capital.

Despite these regulations, the debate about access to housing for minorities, and the home ownership divide still rages today. Unfortunately, a very large gap still exists between white and minority homeownership despite the concerted effort to remedy the issue. The Urban Institute presented data analyzed by the American Community Survey from the 100 cities with the largest number of black households. Its analysis found that Minneapolis, Minnesota had the largest disparity where the white homeownership rate was 74.8 percent compared to a black homeownership rate of just 24.8 percent; a 50 percent gap. The smallest disparity was observed in Killeen, Texas where the rates of white and black homeownership were 63 percent and 48.5 percent, respectively; a 14.5 percent gap. According to the US Census Bureau, the overall homeownership rate for black households across the country has reached a 50 year low of 41.7 percent. Our country has not seen homeownership rates this low in black communities since before the enactment of the Fair Housing Act, when it was still legal to discriminate on the basis of race.

Hispanic homeownership rates, although slightly higher, still pale in comparison to the national average. According to the US Census Bureau, the Hispanic homeownership rate was at 46.2 percent as of 2017, 17.7 percentage points lower than the overall national average of 63.9 percent. Freddy Mac released a report entitled "Will the Hispanic Homeownership Gap Persist" in which it estimates that Hispanics will close the gap with white homeownership rates by 5.1 percentage points by 2035. However, it bases this projection on past immigration patterns which, in this day and age, are far from certain to repeat themselves.

Many experts believe that the housing bubble and subsequent 2008 recession is the number one contributing factor to the current gap in homeownership. Although the recession impacted all Americans negatively, regardless of demographic, it had a disproportionate impact on minorities who purchased homes at much higher rates during the height of the market. Furthermore, many minority borrowers were steered toward subprime loans despite the availability of other financing options, which resulted in several banks settling for millions of dollars with the Justice Department.

Although the effects of the recession still affect the vast majority of Americans, they are amplified within minority groups in terms of the lingering damage to their credit. The credit profiles for the majority of those individuals who were able to obtain a mortgage just prior the recession have been scarred by foreclosures and, in many instances, crippling credit card debt incurred in the aftermath to cover necessities. Because these factors can affect credit scores for years, without assistance, the future looks bleak for many of these past borrowers.

Minority credit issues, however, aren't just limited to those individuals who were directly affected by the housing crisis. The Urban Institute reported that in 2013 only 41 percent of Hispanics and 33 percent of black Americans had credit scores over 720 compared to 64 percent of white borrowers. Minority groups, specifically those who are black or Hispanic, are often plagued by lower credit scores because of the methods by which various scoring models generate credit scores. The CFPB found that minority populations are more likely to be credit invisible because they are less likely to have traditional sources of credit such as loans and credit cards. One solution proposed by Experian in a 2015 white paper entitled "Let there Be Light", was to incorporate utility bill payments into the credit analysis. The white paper estimated that the inclusion of this data could reduce the number of subprime borrowers by as much as 47 percent. Until alternative metrics are devised to take these extenuating circumstances into account, however, leaders in the housing industry must work to find solutions to bridge the homeownership gap.

Many financial institutions are required by law to provide loans and

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extend credit to those individuals in low to moderate income communities, but they must do so in a manner consistent with safe and sound operation. Although the spirit of the law is meant to help those populations that are traditionally underserved, many have argued that it is becoming increasingly difficult to lend in those areas because of the numerous factors discussed above. Many low to moderate income individuals, specifically minorities, do not have the necessary credit profile to qualify for the loans for which they apply. This often puts financial institutions in a bind. Although they are ready and willing to lend to qualified borrowers in those communities, precautions must be taken to safeguard the operation of their business.

Fortunately for banks and other lenders, there may be a way to not only assist those minority groups and lower income individuals who need it the most, but generate significant revenue by tapping into a market that would have otherwise been inaccessible. The solution is to partner with not for profit companies that provide consumers with credit remediation services in addition to other resources such as coaching and education. When choosing a partner, banks and lenders should ensure that their potential borrowers have access to educational resources which will enable them to understand ramifications of their financial decisions. Doing so will ensure responsible borrowing in the future, which will help consumers and lenders, alike.

It is also imperative that any potential partner have mechanisms in place to track, monitor, and measure progress and results. Doing so will ensure the generation of data that can be studied to evaluate efficiency and the impact on those minority and low to moderate income communities. Those metrics can then be utilized by governmental and regulatory bodies to decide how best to solve the problems faced by those communities going forward.

If key players in this sector are able to adopt and implement programs to help bridge the housing gap and raise the rates of minority homeownership, the industry as a whole will reap the benefits of a more robust market. There are an estimated 43 million black Americans in the U.S. and Hispanics, who are the fastest growing demographic, make up 18 percent of the population. These two groups represent billions of dollars in potential new loan opportunity. The only logical solution is to get these groups the assistance that they need in order to help eliminate any disparity while simultaneously to strengthening the housing market and our economy as a whole. ❖

ABOUT THE AUTHOR
Elizabeth Karwowski is the CEO of Get Credit Healthy, a technology company that has developed a proprietary process and solution, which seamlessly integrates with the lenders' loan origination software (LOS) and customer relationship management software (CRM) in order to create new loan opportunity and recapture leads. Get Credit Healthy helped their partners create over $200M of new loan opportunities in 2017 alone, and plan on continued growth in 2018.