Evaluating Affordable Housing Efforts

Disparities Report

2022

MINNESOTA HOUSING

In 2014 Minnesota Laws, Chapter 312, Article 2, Section 16, the Legislature requires the Minnesota Housing Finance Agency to annually report on housing disparities.

> *The Housing Finance Agency shall annually report to the chairs and ranking minority members of the house of representatives and senate committees with jurisdiction over the agency on progress, if any, the agency has made in closing the racial disparity gap and low-income concentrated housing disparities.*

This report covers activities carried out in 2022 and has two sections:

1. Homeownership: Reducing Disparities
2. Rental Housing: Providing Low-Income Renters with Greater Choice

Homeownership: Reducing Disparities

While Minnesota has the ninth highest homeownership rate in the country, it also has the fourth largest disparity between: (1) White/non-Latino households and (2) Indigenous, Black and households of color.[1]

Table 1: 2022 Homeownership Rates[2]

Category	Rate	National Rank
Overall Homeownership Rate	72.1%	9th Highest
Homeownership Rate for White/Non-Latino Households	77.3%	8th Highest
Homeownership Rate for Indigenous, Black and Households of Color	48.6%	38th Highest
Percentage Point Gap in Homeownership Rates	28.8	4th Largest

As shown in Figures 1 and 2 below, the disparity has been large and persistent, and it is especially egregious for Black households.

[1] Includes households where one or more borrowers identifies as Asian, Black, Native American, Pacific Islander, of multiple races or identifies as Latino of any race.

[2] U.S Census Bureau, *2022 American Community Survey*.

Figure 1: Historical Homeownership Rates in Minnesota, by Race and Ethnicity[3]

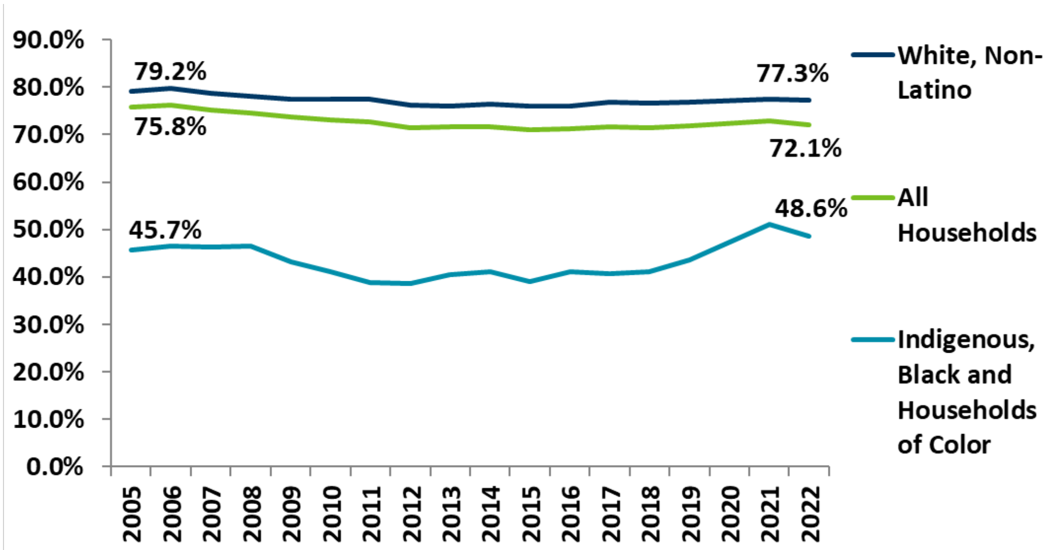
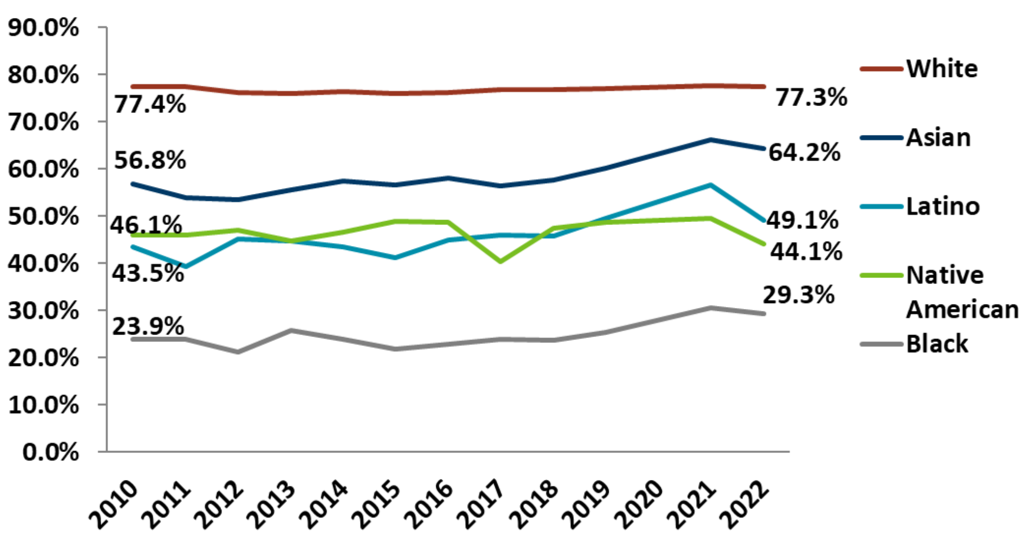


Figure 2: Homeownership Rates in Minnesota, Disaggregated[4]



[3] U.S. Census Bureau, *Decennial Census and American Community Surveys*.

[4] U.S. Census Bureau, *American Community Surveys*.

Reducing the disparities is critical because successful homeownership is a powerful wealth-generation tool for families. For example, a study from the Joint Center for Housing Studies at Harvard University found that:

> *Each year of successful homeownership between 1999 and 2009 increased the wealth of Black households by $8,474 on average.*[5]

Reducing the homeownership disparity is one of our strategic priorities, and we have made significant progress in our lending, as shown in Table 2. Highlights include:

- Since 2011, we have more than tripled our annual lending to Indigenous, Black and households of color who are first-time homebuyers, increasing the annual number of loans from 515 to 1,760.
- We are serving Indigenous, Black and households of color at a rate that is almost two times greater than the overall mortgage industry. Based on the most recent data, 40% of our first-time homebuyers are Indigenous, Black and households of color, while 21% of all home-purchase borrowers in Minnesota are from these underserved communities.
- Minnesota Housing only accounts for roughly 8% of the overall home-purchase mortgage market. The entire homebuying and mortgage industry needs to work together and accelerate its efforts to make significant progress in closing the homeownership gap for Indigenous, Black and households of color.

Table 2: Home Mortgages for Indigenous, Black and Households of Color in Minnesota

Year	Number of First-Time Homebuyer Mortgages Supported by Minnesota Housing [a]	Number of Minnesota Housing's First-Time Homebuyer Mortgages Going to Indigenous, Black and Households of Color [a]	Share of Minnesota Housing's Mortgages to Indigenous, Black and Households of Color	Share of Overall Market's Mortgages to Indigenous, Black and Households of Color [b]
2007	3,422	508	15%	11%
2008	2,764	451	16%	9%
2009	1,222	383	31%	10%
2010	1,920	595	31%	10%
2011	2,245	515	23%	10%

[5] Joint Center for Housing Studies at Harvard University, *Is Homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households? (Was it Ever?)*, September 2013, pp 46-47. The results occurred during a less-than-ideal and tumultuous period involving a housing boom and bust.

Year	Number of First-Time Homebuyer Mortgages Supported by Minnesota Housing [a]	Number of Minnesota Housing's First-Time Homebuyer Mortgages Going to Indigenous, Black and Households of Color [a]	Share of Minnesota Housing's Mortgages to Indigenous, Black and Households of Color	Share of Overall Market's Mortgages to Indigenous, Black and Households of Color [b]
2012	2,328	530	23%	9%
2013	2,746	634	23%	11%
2014	2,430	602	25%	11%
2015	3,769	1,054	28%	12%
2016	3,418	1,076	31%	14%
2017	3,541	1,175	33%	15%
2018	4,002	1,377	34%	16%
2019	4,082	1,402	34%	17%
2020	4,328	1,473	34%	18%
2021	4,390	1,663	38%	21%
2022	4,403	1,760	40%	21%

a. Minnesota Housing's mortgage program for first-time homebuyers (Start Up). The counts are based on purchased loans.

b. Federal Financial Institutions Examination Council, Home Mortgage Disclosure Act (HMDA) data. Data applies to home purchase mortgages and excludes refinancing.

Until the last seven years, the agency's highest lending rates to Indigenous, Black and households of color occurred during the housing crisis of 2009 and 2010, when overall mortgage lending was very low. Even though our lending was significantly down during this period, our outreach efforts to Indigenous, Black and households of color maintained the number of loans going to these underserved households (roughly 400 to 600 loans annually), which resulted in higher lending rates (31%).

Over the last decade, we have carried several initiatives to reach and better serve Indigenous, Black and households of color. For example:

- At the end of 2014, we created the Homeownership Capacity program – through which, we provide grant funding to organizations that work with households facing barriers to homeownership. The grantees provide intensive homebuyer and financial training that prepares the households for homeownership. In 2022, 90% of the 808 program participants were Indigenous, Black and people of color.
- In 2015, we introduced a redesigned down-payment assistance program (Deferred Payment Loan Plus) that provides larger deferred loans (which is currently $18,000 rather than the standard $16,500) to households that have at least two of the following four characteristics:
    1. A sole head of household with at least one eligible dependent,
    2. A household of four or more people,

3. A household member with a disability, or
4. Mortgage costs that will be more than 28% of the household's income.

The program has effectively reached Indigenous, Black and households of color, accounting for 65% of the borrowers receiving this assistance.[6] In contrast, Indigenous, Black and households of color account for 32% of borrowers receiving the standard deferred loan.

As shown in Table 2, our lending to Indigenous, Black and homebuyers of color increased substantially starting in 2015, after these two programs were launched.

To increase awareness about our home mortgages and down-payment and closing-cost resources and promote homebuyer education, we actively reach out to consumers and the business community.

- Outreach to potential homebuyers
    - Host booths at community events that are well-attended by Indigenous, Black and households of color
    - Create videos, posts, and ads for social media
    - Develop targeted-market and public-relations efforts, including interviews in community publications and on community radio shows
    - Launch an outreach campaign in the Black community in the metro area to address the very large homeownership disparity
- Business-to-business outreach
    - Cultivate relationships with lenders and real estate agents who work in diverse communities
    - Create strategic partnerships with:
        - Real Estate Associations, such as National Association of Hispanic Real Estate Professional (NAHREP), National Association of Real Estate Brokers (NAREB), Asian Real Estate Association of America (AREAA)
        - Non-profit homeownership advisors who work in diverse communities
    - Offer educational opportunities for realtors, including continuing education credits
- Industrywide Outreach
    - Lead an industry-wide coalition to expand homeownership for Indigenous, Black and households of color called the Homeownership Opportunity Alliance. The Homeownership Opportunity Alliance works to address barriers to homeownership, educates the industry on market opportunities to serve households of color, and has implemented a campaign called "Get Ready. Be Ready!" to connect households of color

[6] Based on purchased loans from October 1, 2021, through September 30, 2022.

with homebuyer education services and build awareness that homeownership is possible.

In addition to mortgage financing, we fund single-family development projects that have the goal of serving Indigenous, Black and households of color. Since 2016, the share of these properties serving Indigenous, Black and homebuyers/owners of color has increased from 45% to 61% in 2022.

Rental Housing: Providing Lower-Income Renters with Greater Choice

To give lower-income renter households more options to live in safe, decent housing that is affordable and in the community of their choice, we have identified two types of communities that need more affordable rental housing:

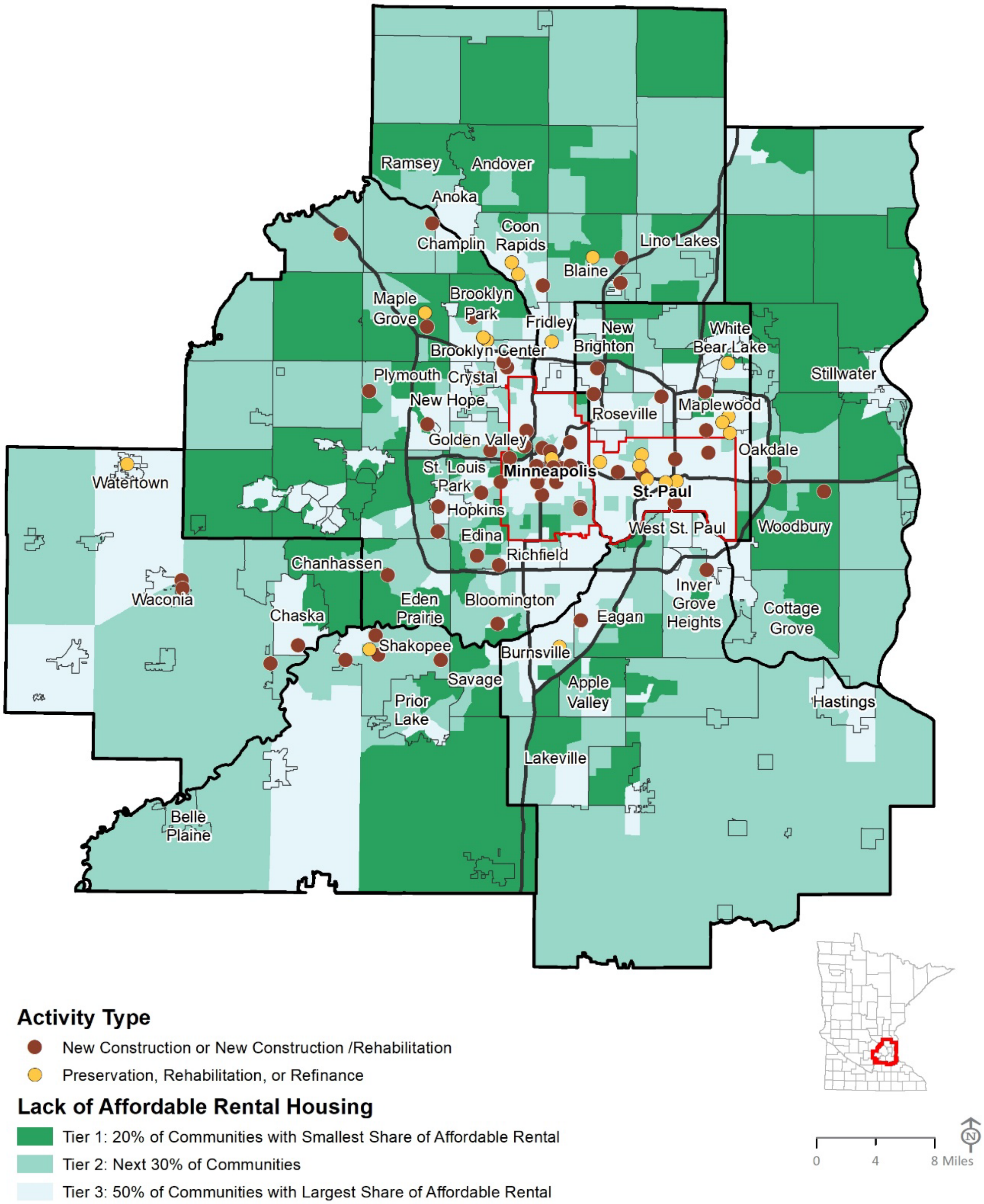
- Communities (typically higher income) that have limited choices because a **small share of the overall housing stock is affordable rental housing**. We have classified communities across the metro area into three tiers:
    - Tier 1 – The 20% of communities with the smallest share of affordable rental housing and the fewest choices for lower-income renters
    - Tier 2 – The next 30% of communities with the smallest share of affordable rental housing
    - Tier 3 – the 50% of communities with the largest share of affordable rental housing.

  It's important to note that even those communities with the largest share of housing stock that is affordable still have an inadequate supply.

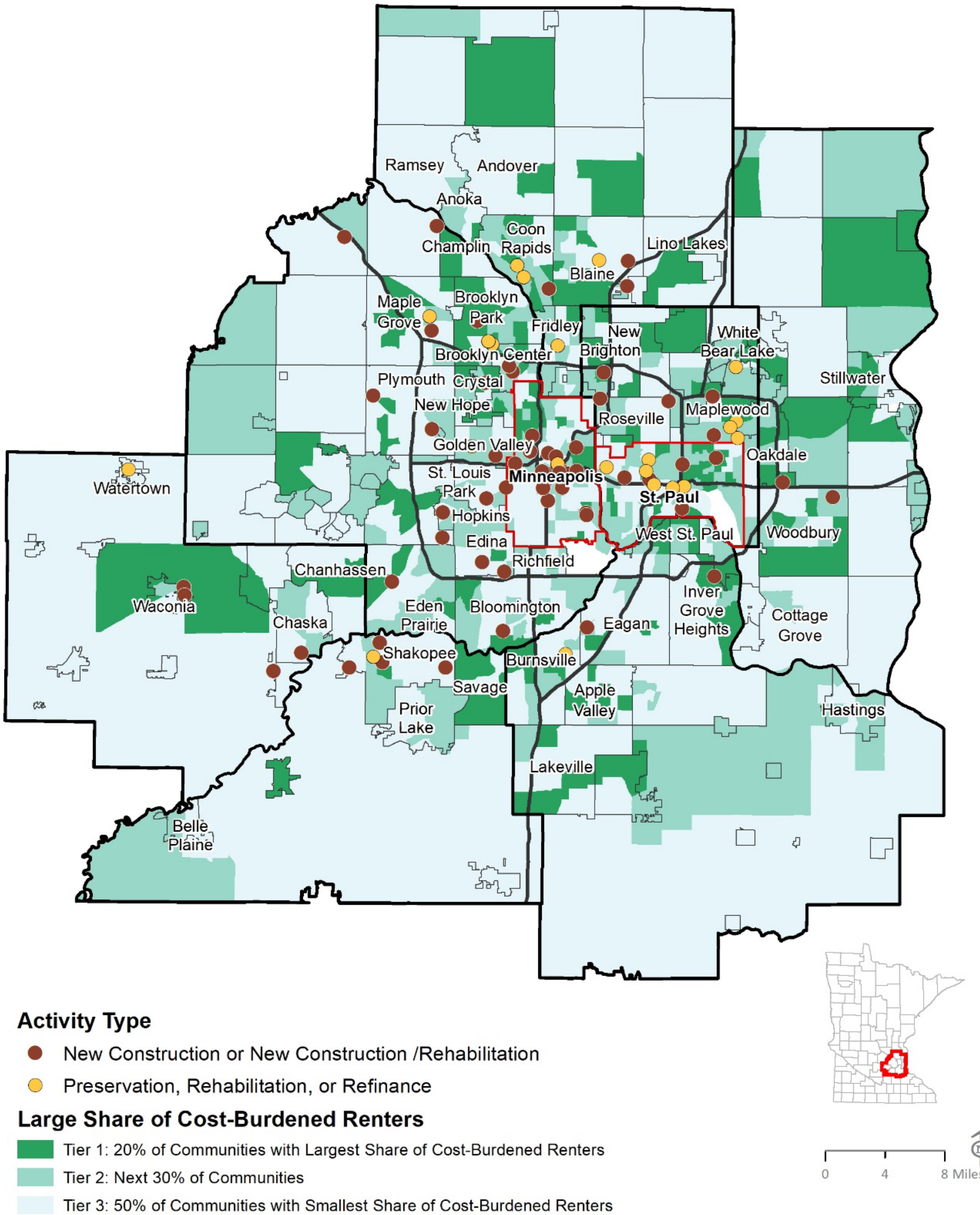
- Communities (typically lower income) where **current demand for affordable rental housing is greater than the supply**, as reflected by a large share of renter households spending more than 30% of their income on rent and utilities. These households are referred to as "cost-burdened." Again, we have classified communities across the metro area into three tiers:
    - Tier 1 – The 20% of communities with the largest share of cost-burdened renter households
    - Tier 2 – The next 30% of communities with the largest share of cost-burdened households
    - Tier 3 – The 50% of communities with the smallest share of cost-burdened households

To increase choice, we encourage development in Tier 1 and 2 communities that have a limited supply of affordable rental housing or a large share of cost-burdened renter households by providing more points in our funding selection process. To assess our funding of rental housing projects in these communities, we have mapped the location of all the developments we have selected for funding through our Consolidated Request for Proposals (RFPs) over the last five years (2018 – 2022). The following two maps show the tiers and the locations of the developments selected for funding.

Map 1: Consolidated RFP Selections in Areas with Lack of Affordable Rental Housing



Map 2: Consolidated RFP Selections in Areas with Cost-Burdened Renter Households



In Map 1, the communities with the darkest shades of green have the most limited supply of rental housing that is affordable, providing lower-income renters the fewest choices. In Map 2, the communities with the darkest shades of green have the most renters who are cost burdened by their housing payments, indicating that the demand for affordable rental housing is greater than the supply. In both maps, the dots show the location of the developments we selected for funding in our Consolidated Request for Proposals in 2018 through 2022.

Table 3 aggregates and summarizes the locations of the selected developments and compares it with where renters are currently living. For example, the first set of numbers in the top row show that 11% of the new construction units are in Tier 1 communities (the 20% of communities with the smallest share of affordable rental housing), 28% are in Tier 2 communities, and the final 61% are in Tier 3 communities.

Table 3: Share of Units in Developments Selected for Funding through the 2018-2022 Consolidated RFPs in Each Tier, Seven-County Metro Area

	Lack of Affordable Rental Housing			Large Share of Cost-Burdened Renters			
Activity Type	**Tier 1: 20% of Communities with Smallest Share of Affordable Rental**	**Tier 2: Next 30% of Communities**	**Tier 3: 50% of Communities with Largest Share of Affordable Rental**	**Tier 1: 20% of Communities with Largest Share of Cost-Burdened**	**Tier 2: Next 30% of Communities**	**Tier 3: 50% of Communities with Smallest Share of Cost-Burdened**	**# of Units or Households**
Community Characteristics: Where Selected Developed Are Located							
Units in New Construction Projects **OR** New Construction Combined with Rehabilitation	11%	28%	61%	14%	46%	39%	5,047 units
Units in Preservation/ Rehabilitation/ Refinance Projects	5%	7%	88%	19%	51%	30%	2,164 units
All Units (Two Categories Combined)	9%	22%	69%	16%	48%	36%	7,211 units
Community Characteristics: Where Current Renters Live							
All Renter Households	10%	21%	69%	18%	39%	42%	379,008 households
All Lower-Income Renter Households (<$50,000 annual income)	7%	17%	76%	24%	44%	32%	181,426 households

The ability to serve different types of communities depends heavily on the proposed projects submitted during the RFP cycle and their feasibility. Nevertheless, these data show how Minnesota Housing is attempting to serve different types of communities and taking steps to increase renter choice and deconcentrate wealth. For example, the share of new construction units going into the communities with the most limited supply is slightly greater than share of lower-income renter households living there.

- While only 7% of all lower-income renter households live in the 20% of communities with the most limited supply of affordable rental housing (see green shading, Tier 1 and bottom row), 11% of the new construction units selected for funding are in these communities (see green shading, Tier 1 and top row).
- In addition, while only 17% of all lower-income renter households live in the next tier of communities (Tier 2), 28% of the new construction units selected for funding are there.

Higher-income communities generally have a smaller stock of affordable rental housing, and developing affordable rental housing in these higher-income communities deconcentrates wealth.[7] It gives lower-income households, who are disproportionally[8] Indigenous, Black and households of color, the opportunity to live in higher income communities if that is their choice.

In our funding application process to develop rental housing, we formally adopted in the fall of 2020 the priority of selecting developments that are in either communities with a limited supply of affordable rental housing (Tier 1 or 2) or communities with a large share of cost-burdened renter households (Tier 1 or 2). This change went into effective for the 2021 RFP selections.[9] The data in Map 1, Map 2, and Table 3 includes only two years of selections under the new scoring criteria. We anticipate a greater share of selections in these communities in future RFPs with the new priorities.

As in the home-mortgage market, Minnesota Housing only finances a small share of new rental units. In 2022, 5% of new rental units in Minnesota were financed by Minnesota Housing.[10] Only an industry-wide effort to prioritize affordable rental developments in communities with limited affordable housing stock and those with a high concentration of cost-burdened renters ensures that all low-income renters have options to live in affordable housing in the community of their choice.

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[7] The correlation coefficient between share of the housing stock that is affordable rental and median household income is -0.77, which is a strong association. In other words, about 59% of the variation across communities in the share of the housing stock that is affordable rental is explained by median household income.

[8] In the 7-county metro, 45.7% of renter households making less than $50,000 annually are Indigenous, Black and households of color compared to 25.1% of the total metro population. Minnesota Housing analysis of 2022 American Community Survey 5-year sample, iPUMS microdata.

[9] RFP selections in 2021 and 2022 respectively allocated 2022 and 2023 tax credits.

[10] Minnesota Housing analysis of internal data and building permit data from HUD’s State of the Cities Data Systems.

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