Evaluating Affordable Housing Efforts

Disparities Report

2019

MINNESOTA HOUSING

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2019 Disparities Report

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

> *(b) 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 through program year 2019.

Homeownership: Reducing Disparities

While Minnesota has the third highest homeownership rate in the country, it also has the fourth largest disparity between: (1) white households and (2) households of color or from indigenous communities.

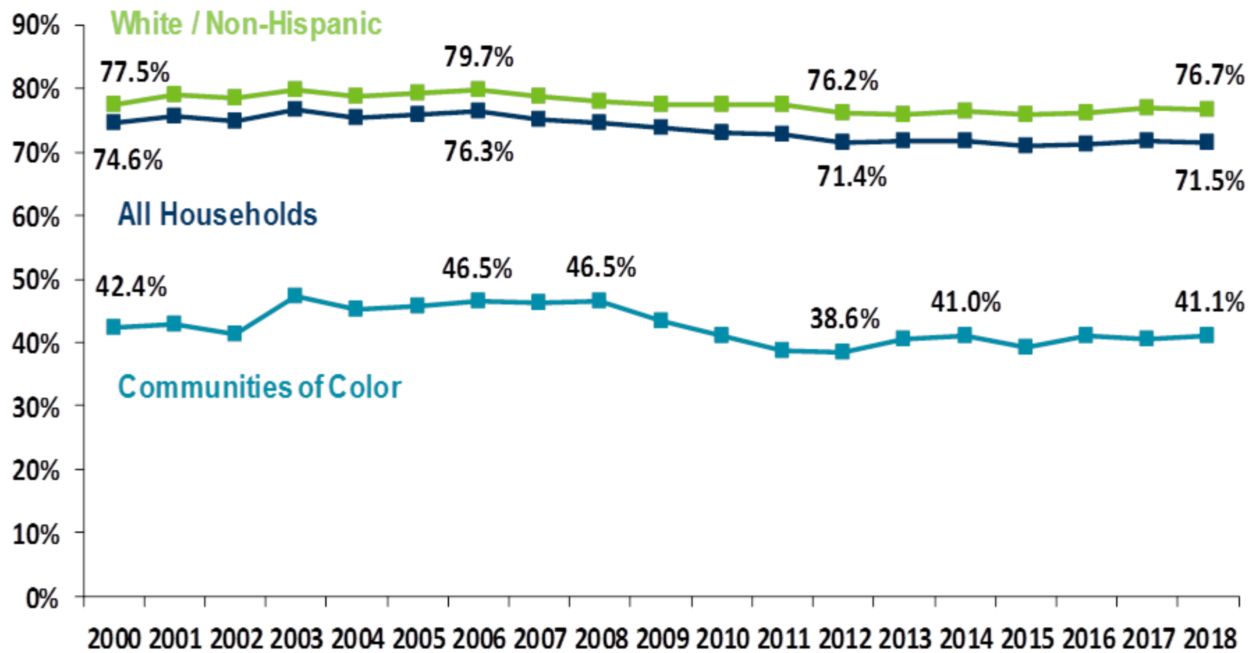
Table 1: 2018 Homeownership Rates[1]

Category	Rate	National Rank
Overall Homeownership Rate	71.5%	3rd Highest
Homeownership Rate for White/Non-Hispanic Households	76.7%	7th Highest
Homeownership Rate for Households of Color and Indigenous Communities	41.1%	41st Highest
Percentage Point Gap in Homeownership Rates	35.6%	4th Largest

As shown in Figure 1 below, the disparity has been persistent over time.

[1] U.S Census Bureau, *2018 American Community Survey*.

Figure 1: Historical Homeownership Rates in Minnesota, by Race and Ethnicity[2]



Reducing the disparity is critical because successful homeownership is a powerful 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 African American households by $8,474 on average.**[3]

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

- Since 2011, we have increased our annual lending to first-time homebuyers of color or from Indigenous communities by 172 percent, from 515 to 1,402 loans.
- We are serving households of color and Indigenous communities at a rate that is over two times greater than the overall mortgage industry. Based on the most recent data, 34 percent of our first-time homebuyers are of color or from indigenous communities, while 16 percent of all borrowers in Minnesota are from these underserved communities. Minnesota Housing accounts for only about 5 percent of the overall home purchase market.

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

[3] 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 2006, pp 46-47. The results occurred during a less-than-ideal and tumultuous period involving a housing boom and bust.

Table 2: Home Mortgages for Households of Color or Hispanic Ethnicity 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 Households of Color or Hispanic Ethnicity [a]	Share of Minnesota Housing's Mortgages to Households of Color or Hispanic Ethnicity	Share of Overall Market's Mortgages to Households of Color or Hispanic Ethnicity [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%
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%	Not Yet available

a. Minnesota Housing's mortgage program for first-time homebuyers (Start Up). The counts are based on purchased loans. Previous version of this report included loans that we financed through our Habitat for Humanity, Bridge to Success, and the Targeted Mortgage Opportunity Program programs. For a consistent time series, we are now excluding those loans because we no longer offer those programs.
b. Federal Financial Institutions Examination Council, Home Mortgage Disclosure Act (HMDA) data.

Until the last four years, our highest lending rates to households of color and indigenous communities occurred during the housing crisis of 2009 and 2010, when overall mortgage lending was very weak. Even though our lending was significantly down during this period, our outreach efforts to households of color and Indigenous communities maintained the number of loans going to these underserved households (roughly 400 to 600 loans annually), which resulted in higher lending rates (31 percent). For example, in 2009, we financed only 1,222 mortgages for first-time homebuyers, with households of color and Indigenous communities receiving 389 of them. In contrast, our overall production nearly doubled (2,245 loans) by 2011, with a larger number (515 loans) but smaller share going to households of color and indigenous communities.

While we have been successful in reaching households of color and Indigenous communities, we continuously strive to improve. In 2014, we created the Enhanced Homeownership Capacity Initiative - 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 2019, 84 percent of the 868 program participants were households of color or from Indigenous communities.

In 2015, we introduced a redesigned down-payment assistance program that provides larger deferred loans ($10,000 rather than the standard $8,000) to households that have at least two of the following four characteristics:

1. A sole head of household with at least one dependent,
2. Four or more people,
3. A disabled household member, or
4. Mortgage costs that will be more than 28 percent of the household's income.

The program has effectively reached households of color and Indigenous communities, accounting for 65 percent of the borrowers receiving this assistance.[4] In contrast, households of color and Indigenous communities account for 30 percent of borrowers receiving the standard deferred loan.

Rental Housing: Expanding Geographic Choice

To give lower-income renter households more options to live in safe, decent and affordable housing in the community of their choice, we balance two goals:

- Building affordable rental housing in higher-income neighborhoods that often have a limited supply; and

- Investing in lower-income communities that need an infusion of capital investment and higher quality housing.

Low-Income Housing Tax Credits are our primary tool for building affordable housing in more communities and increasing geographic choice.[5] As shown in Figure 2 and Table 3:

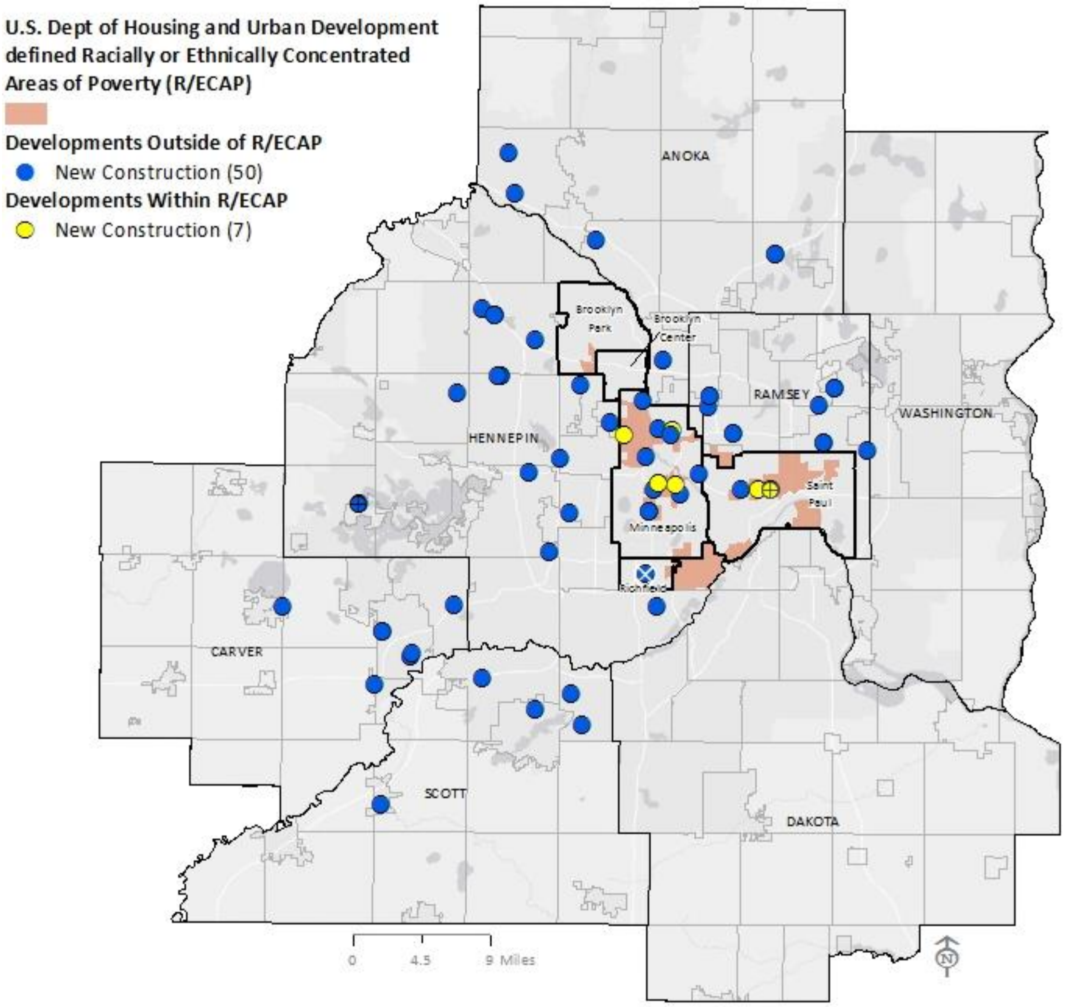
- New LIHTC units financed by Minnesota Housing (allocation years 2005 through 2020) are spread throughout the metropolitan region.

- About 10 percent of the new units are in Racially and Ethnically Concentrated Areas of Poverty (R/ECAPs). In the map, the R/ECAPs have a salmon color, and the developments in these areas are represented with a yellow dot.

- About 90 percent are in higher-income neighborhoods.

[4] Based on purchased loans from October 1, 2018 through September 30, 2019.
[5] The analysis in Figure 2 and Table 3 only apply to competitive 9% tax credits that are allocated in the metropolitan area under Minnesota Housing's Qualified Allocation Plan (QAP). The analysis excludes 9% credits allocated by suballocators (the City of Minneapolis, City of St. Paul, Dakota County, and Washington County) and 4% credits.

Figure 2: LIHTC* Units Financed by Minnesota Housing between 2005 and 2020, New Construction Only



This 70 unit development was selected by MHFA in 2012. The developer was unable to move forward with the development and returned the LIHTC to MHFA.

Development is a combination rehabilitation/new construction buliding.

Table 3: New Construction LIHTC* by Racially or Ethnically Concentrated Areas of Poverty

R/ECAP Status	Developments	Share of Developments	Units	Share of Units	$	Share of $
Outside of R/ECAP	50	87.7%	2,539	89.9%	$38,788,120	90.9%
Within R/ECAP	7	12.3%	293	10.1%	$3,871,485	8.5%
Total	**57**	**100%**	**2,832**	**100%**	**$42,659,605**	**100%**

* LIHTC for allocation years 2005 through round 1 of 2020. The data only applies to competitive 9% credits allocated by Minnesota Housing through its Qualified Allocation Plan (QAP). It excludes non-competitive 4% credits and credits from sub-allocators.

** Two developments are a combination rehabilitation and new construction building. The developments are categorized as new construction, and the dollars and units are split between new construction and rehabilitation.

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