Evaluating Affordable Housing Efforts

Disparities Report

2020

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2020 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 2020 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 third highest homeownership rate in the country, it also has the fourth largest disparity between: (1) White/non-Latinx households and (2) Black, Indigenous and households of color.

Table 1: 2019 Homeownership Rates[1]

Category	Rate	National Rank
Overall Homeownership Rate	71.9%	3rd Highest
Homeownership Rate for White/Non-Latinx Households	76.9%	6th Highest
Homeownership Rate for Black, Indigenous and Households of Color	43.6%	37th Highest
Percentage Point Gap in Homeownership Rates	33.4	4th Largest

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

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

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

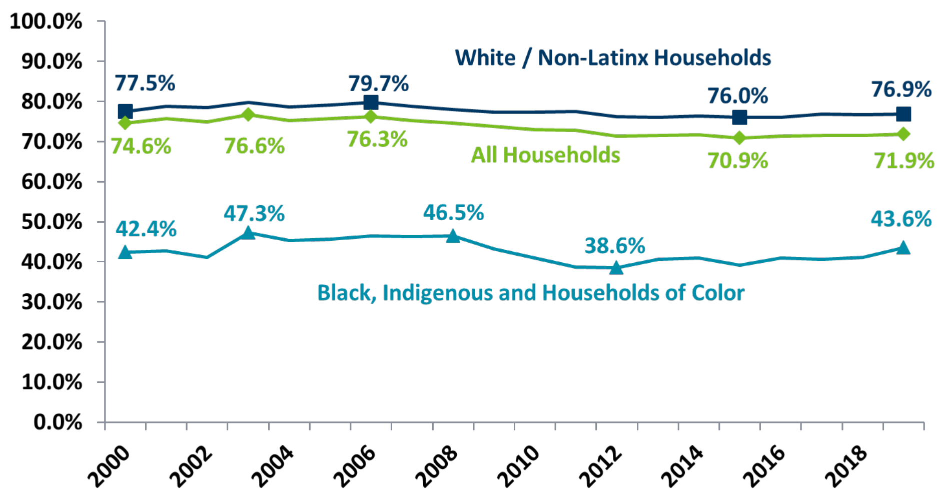
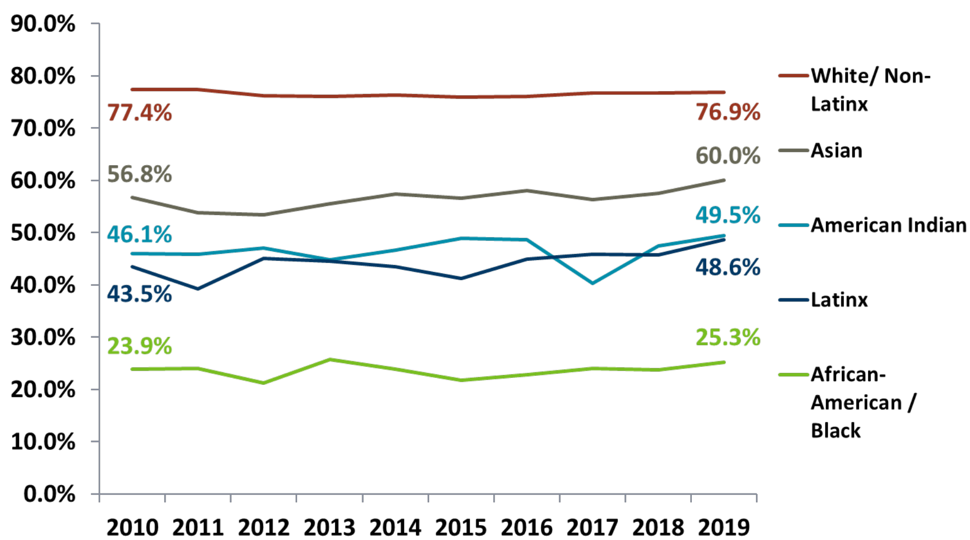


Figure 2: Homeownership Rates in Minnesota, Disaggregated[3]



Reducing the disparities 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.[4]**

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

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

[4] 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.

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 nearly tripled our annual lending to Black, Indigenous and households of color who are first-time homebuyers, increasing the number of loans from 515 to 1,473.

- We are serving Black, Indigenous and households of color at a rate that is two times greater than the overall mortgage industry. Based on the most recent data, 34 percent of our first-time homebuyers are Black, Indigenous and households of color, while 17 percent of all home-purchase borrowers in Minnesota are from these underserved communities.

However, Minnesota Housing accounts for only 6 percent of the overall home-purchase mortgage market, and the entire homebuying and mortgage industry needs to work together to address the large disabilities.

Table 2: Home Mortgages for Black, Indigenous 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 Black, Indigenous and Households of Color [a]	Share of Minnesota Housing's Mortgages to Black, Indigenous and Households of Color	Share of Overall Market's Mortgages to Black, Indigenous 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%
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%	Not Yet available

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 five years, our highest lending rates to Black, Indigenous and households of color 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 Black, Indigenous 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 percent).

In recent years, have carried several initiatives to reach and better serve Black, Indigenous and households of color. For example:

- At the end of 2014, we created the Enhanced 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 2020, 83 percent of the 1,010 program participants were Black, Indigenous 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 $13,000 rather than the standard $10,000) 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 household member with a disability, or
  4. Mortgage costs that will be more than 28 percent of the household's income.

  The program has effectively reached Black, Indigenous and households of color, accounting for 67 percent of the borrowers receiving this assistance.[5] In contrast, Black, Indigenous and households of color account for 30 percent of borrowers receiving the standard deferred loan.

As shown in Table 2, our lending to Black, Indigenous and homebuyers of color really took off 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.

[5] Based on purchased loans from October 1, 2019 through September 30, 2020.

- **Potential homebuyer outreach**
  - Host booths at community events that are well-attended by Black, Indigenous and households of color
  - Create videos, posts, and ads for Social Media
  - Develop targeted-market and public-relations efforts, including interviews on community publication and radio shows
  - Launch an outreach campaign in the African-American/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 – e.g. 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 Black, Indigenous and households of color. 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 with homebuyer education services and build awareness that homeownership is possible.

Finally, we fund single-family development projects that have the goal of serving Black, Indigenous and households of color. Since 2016, the share of these properties serving Black, Indigenous and homebuyers/owners of color has increased from 45 to 62 percent, surpassing 60 percent for the first time in 2020.

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 housing:

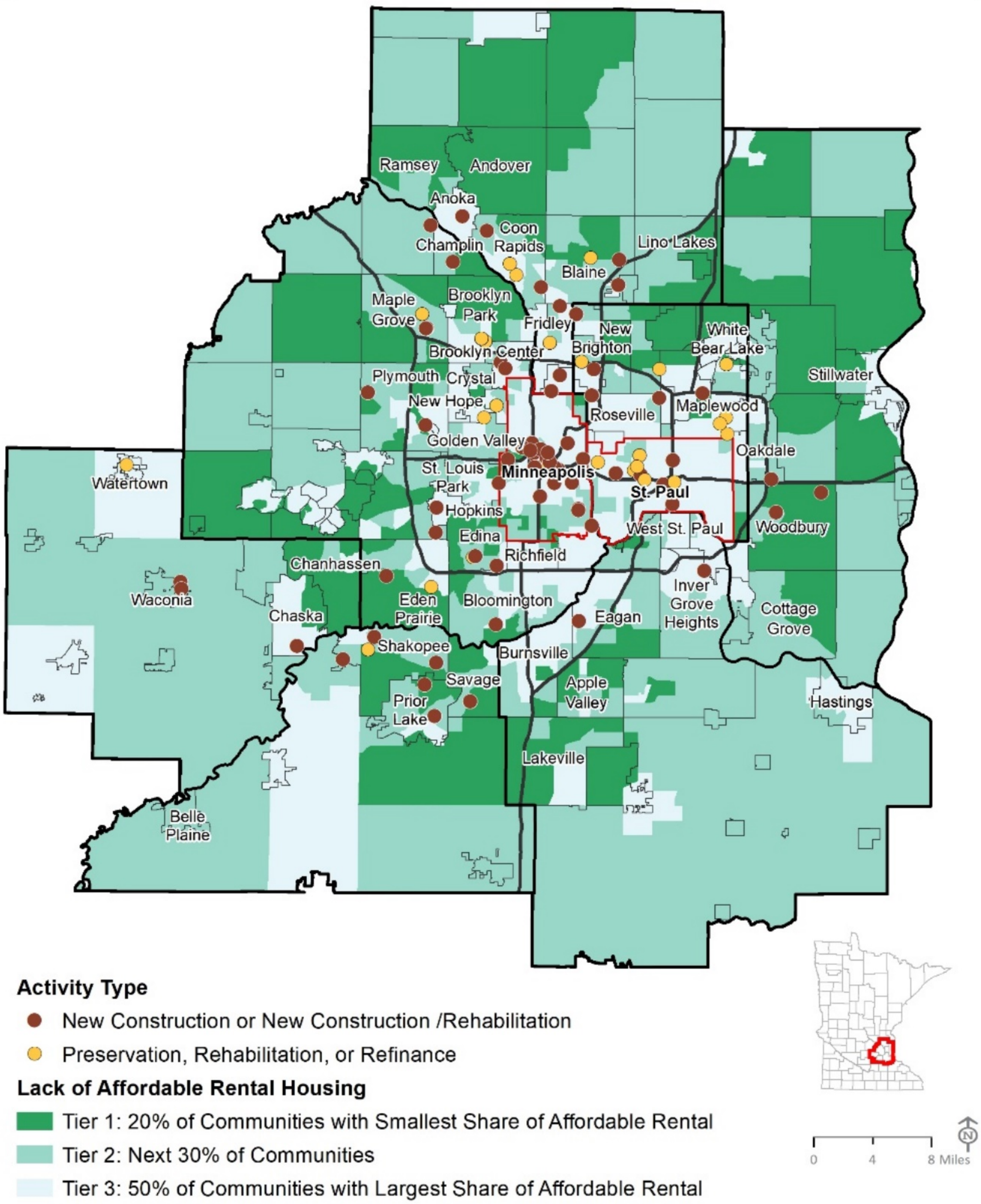
- Communities (typically higher income) that have limited choices because a **small share of the overall housing stock is affordable rental housing**. We have classified communities across the metro area into three tiers:
    - Tier 1 – The 20% of communities with the smallest share of the housing stock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

  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. 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 in terms of having the largest share
    - Tier 3 – The 50% of communities with the smallest share

To increase choice, we want to encourage development in Tiers 1 and 2 of either type of community. To assess that, 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. 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



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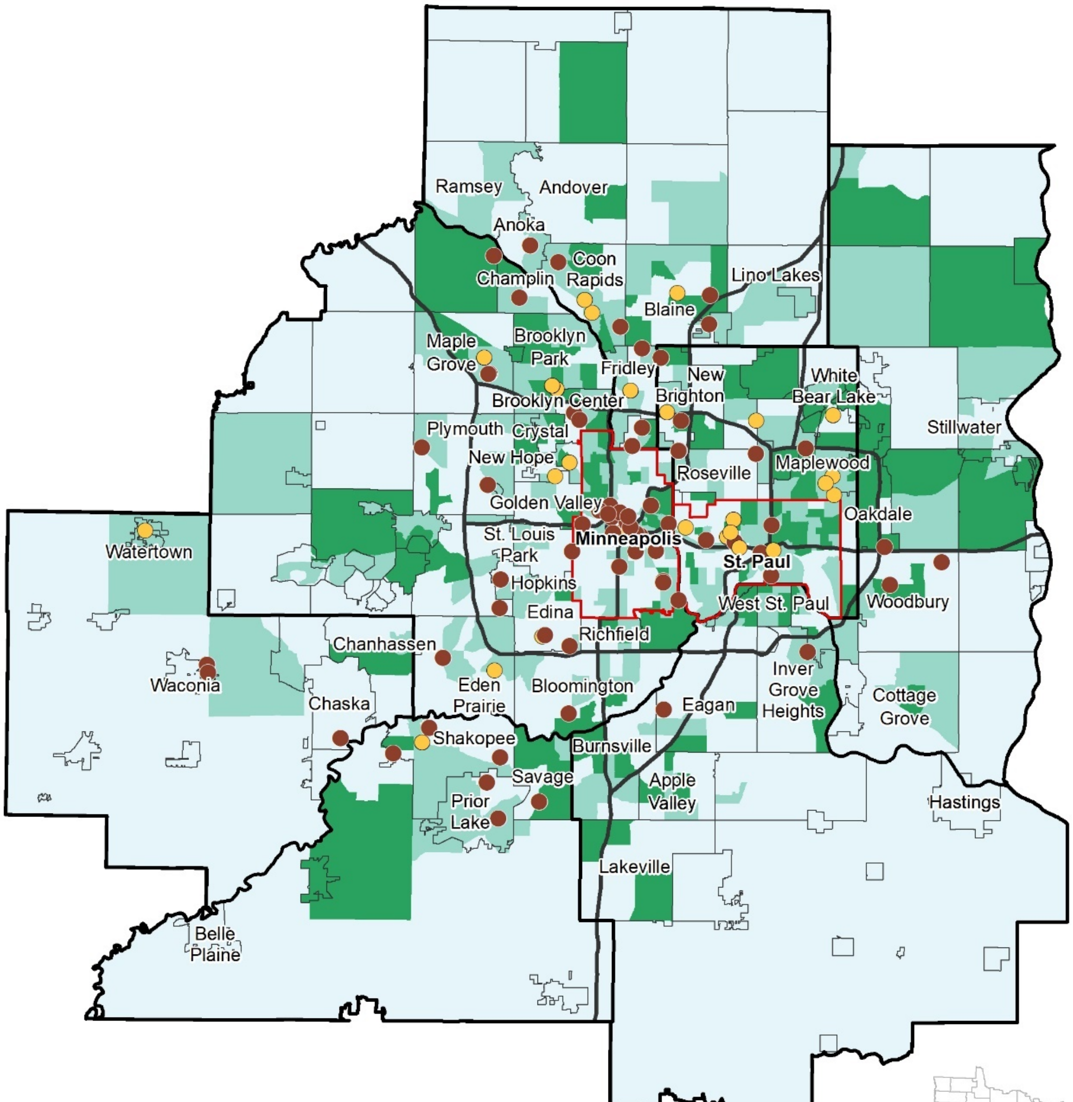
Map 2: Consolidated RFP Selections in Areas with Cost-Burdened Renter Households



Activity Type

- New Construction or New Construction /Rehabilitation
- Preservation, Rehabilitation, or Refinance

Large Share of Cost-Burdened Renters

- Tier 1: 20% of Communities with Largest Share of Cost-Burdened Renters
- Tier 2: Next 30% of Communities
- Tier 3: 50% of Communities with Smallest Share of Cost-Burdened Renters

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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.

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 10 percent of the new construction units are in Tier 1 communities (the 20% of communities with the smallest share of affordable rental housing), 41 percent are in Tier 2 communities, and the final 49 percent are in Tier 3 communities.

Table 3: Share of Units in Developments Selected for Funding through the 2016-2020 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 Communit ies 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 Communit ies with Smallest Share of Cost-Burdened**	**`# of Units or Households**
Community Characteristics: Where Selected Developed Are Located							
Units in New Construction Projects <u>OR</u> New Construction Combined with Rehabilitation	10%	41%	49%	10%	41%	49%	6,066 units
Units in Preservation / Rehabilitation / Refinance Projects	4%	16%	80%	14%	59%	27%	2,547 units
All Units (Two Categories Combined)	8%	33%	58%	11%	46%	42%	8,613 units
Community Characteristics: Where Current Renters Live							
All Renter Households	7%	21%	72%	18%	37%	45%	376,400 households
All Lower-Income Renter Households (<$50,000 annual income)	4%	17%	79%	24%	41%	35%	197,765 households

These data indicate that Minnesota Housing is increasing renter choice and deconcentrating wealth. For example, the share of new construction units going into the communities with the most limited supply is greater than share of lower-income renter households living there.

- While only 4% 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), 10% 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), 41% 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.[6] It gives lower-income households the opportunity to live in higher income communities if that is their choice.

In our rental application process, 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). With future selections, we anticipate funding more projects in these communities, which will be reflected in future reports.

[6] 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.

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