Planning, Research & Evaluation

2016 Disparities Report

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Minnesota Housing Finance Agency

2016 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 fulfills that requirement for activities carried out in program year 2016.

Homeownership: Reducing Disparities

While Minnesota has the third highest homeownership rate in the country, it also has the highest disparity in homeownership rates between white households and households of color or Hispanic ethnicity.

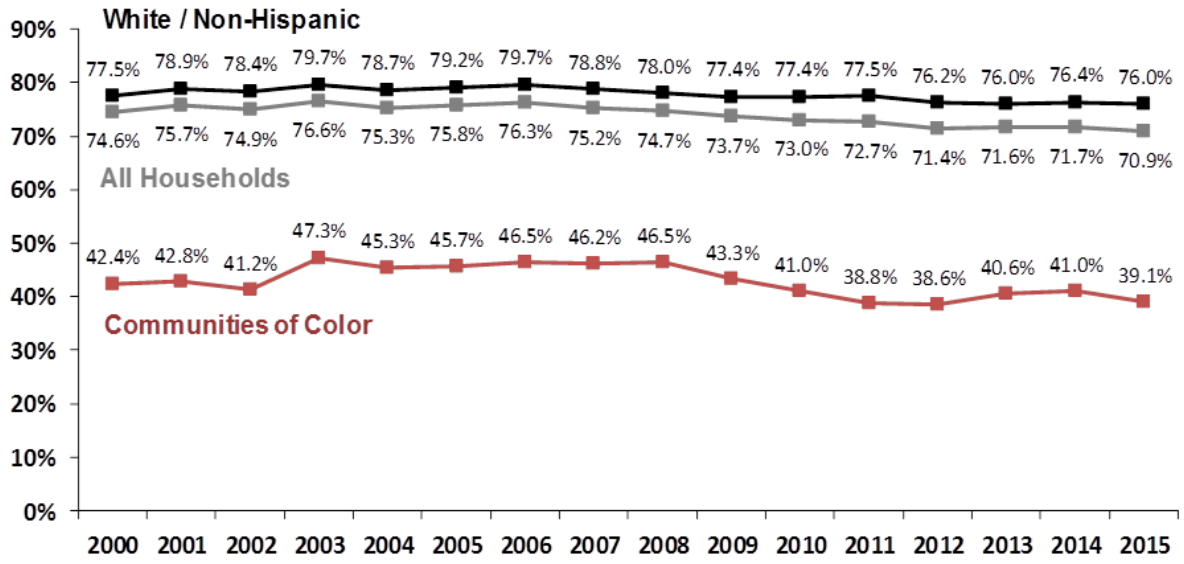
Table 1: 2015 Homeownership Rates[1]

Category	Rate	National Rank
Overall Homeownership Rate	70.9%	3rd Highest
Homeownership Rate for White/Non-Hispanic Households	76.0%	6th Highest
Homeownership Rate for Households of Color or Hispanic Ethnicity	39.1%	44th Highest
Percentage Point Gap in Homeownership Rates	36.9%	1st Largest

As shown in Figure 1 below, the disparity has been persistent over time. The disparity shrank from 35.1 percentage points in 2000 to 31.5 by 2008, increased to 38.7 by 2011, and dropped and fluctuated a bit since then. Two factors were the primary cause of the increase between 2008 and 2011. First, foreclosures disproportionately affected households of color and Hispanic ethnicity, which reduced their homeownership rate; and second, with the foreclosure crisis, the standards to qualify for a mortgage became much stricter, making it more difficult to become a homeowner.

[1] U.S Census Bureau, *2015 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 Harvard University found that:

> **Each year of homeownership between 1999 and 2009 increased the wealth of African American households by $8,474 on average.[3]**

In response to Minnesota's homeownership disparity, we made reducing it one of the Agency's five strategic priorities; and we have made progress, as shown in Table 2. Here are a few highlights.

- In 2015, we increased our lending to households of color and Hispanic ethnicity who are first-time homebuyers by 69 percent, from 674 to 1,141 loans. This was our largest number of loans ever. In 2016, we essentially sustained that level while our overall lending to first-time homebuyers dropped from 3,876 to 3,472 loans.

- We are serving households of color and Hispanic ethnicity at a rate that is nearly three times higher than the overall mortgage industry. Based on the most recent data, 32 percent of our first-time homebuyers are households of color or Hispanic ethnicity, while 12 percent of all borrowers in Minnesota are households of color or Hispanic ethnicity.

- We estimate that just over 25 percent of renter households in Minnesota that are income eligible for our first-time homebuyer programs are households of color or Hispanic ethnicity, and 32 percent of the Agency's first-time buyer are households of color or Hispanic ethnicity. This assessment does not include eligibility based on credit scores, debt-to-income ratios, and other qualifying requirements.

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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	3,329	502	15%	11%
2008	2,803	474	17%	9%
2009	1,260	411	33%	10%
2010	1,970	624	32%	10%
2011	2,299	549	24%	10%
2012	2,367	555	23%	9%
2013	2,855	689	24%	11%
2014	2,547	674	26%	11%
2015	3,876	1,141	29%	12%
2016	3,472	1,121	32%	Not Yet available

a. Includes Minnesota Housing's regular home mortgage programs for first-time homebuyers, Habitat for Humanity financing, Bridge to Success financing, and the Targeted Mortgage Opportunity Program. The counts are based on purchased loans.
b. Federal Financial Institutions Examination Council, Home Mortgage Disclosure Act (HMDA) data.

Until this year, our highest lending rates to households of color or Hispanic ethnicity 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 Hispanic ethnicity maintained the number of loans going to these households (400 to 600 loans annually), which resulted in higher lending rates (32 to 33 percent). For example, in 2009, we financed only 1,260 mortgages for first-time homebuyers, with households of color or Hispanic ethnicity receiving 411 of them. In contrast, our overall production nearly doubled (2,299 loans) by 2011, with a larger number (549 loans) but smaller share going to households of color or Hispanic ethnicity.

While we have been successful in reaching households of color or Hispanic ethnicity, we continue to strive for improvement. 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 grantee organizations provide intensive homebuyer training that prepares the households for homeownership. In 2016, 88 percent of program participants were households of color or Hispanic ethnicity.

In 2015, we introduced a redesigned down-payment assistance program. The program provides more down-payment assistance ($10,000 rather than the standard $8,000) to households that have 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 would be more than 28 percent of the household's income. The program has effectively reached households of color or Hispanic ethnicity, accounting for 66 percent of the borrowers receiving this assistance.[4] In contrast, households of color and Hispanic ethnicity account for 26 percent of borrowers receiving regular down-payment assistance and 17 percent of borrowers receiving no down-payment assistance.

[4] Based on net loan commitments from October 1, 2014 through February 29, 2015.

Rental Housing: Providing Choice and Access to Opportunity

To give lower-income renter households more opportunities 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 provide access to opportunities often not found in lower-income neighborhoods, such as schools with higher test scores; and

- Investing in lower-income communities that are trying to revitalize and need an infusion of capital investment and higher quality affordable housing.

New construction is the tool for increasing affordable housing opportunities in higher income communities, and Low-Income Housing Tax Credits (LIHTC) are our primary tool for financing new affordable housing.[5] As shown in Figure 2 and Table 3:

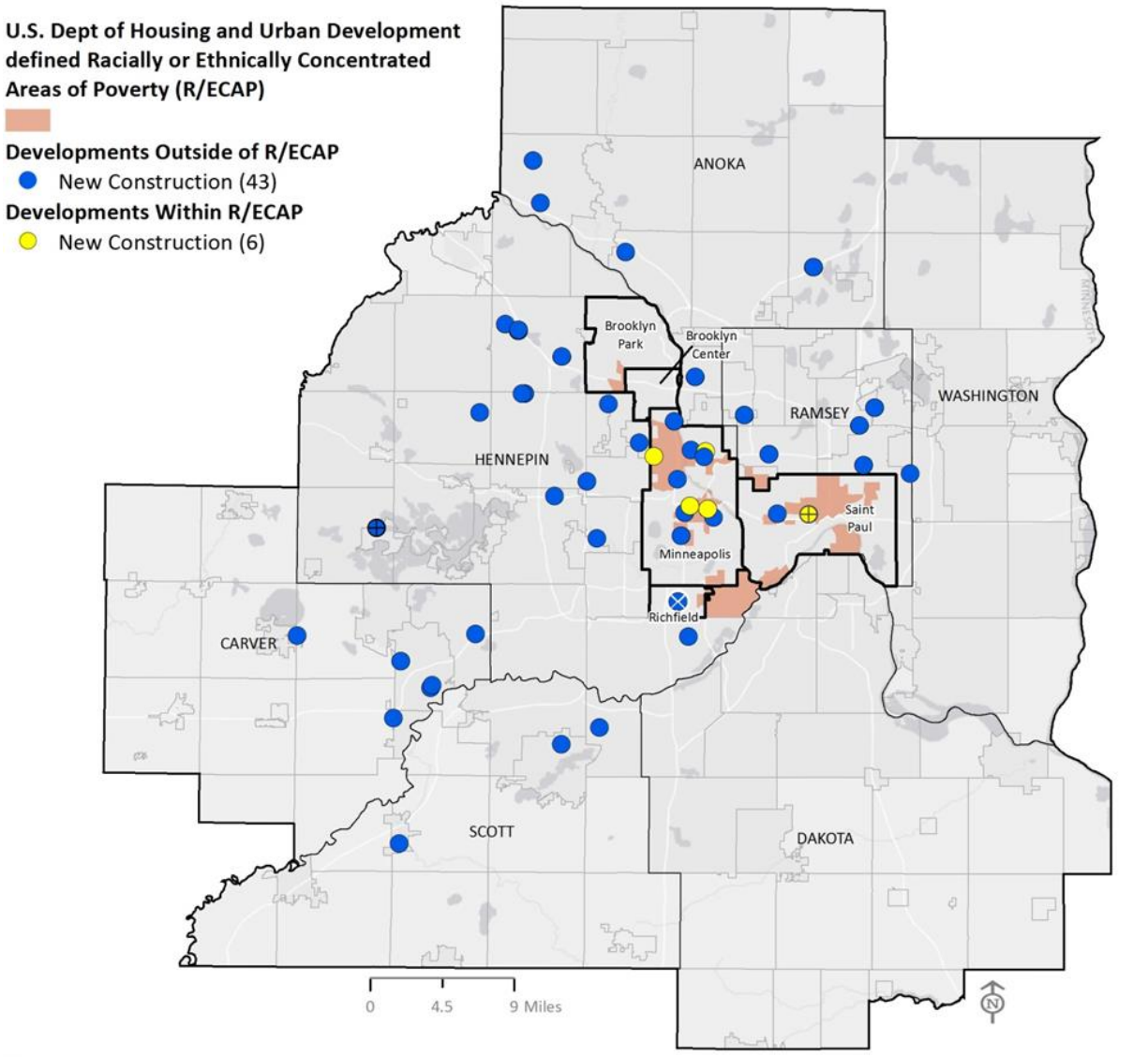
- New LIHTC units financed by Minnesota Housing between 2005 and 2017 are spread throughout the metropolitan region.

- Only 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.

- The vast majority of units (90 percent) are in higher-income neighborhoods.

[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 2017, 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	43	87.8%	2,109	89.9%	$31,470,234	91.5%
Within R/ECAP	6	12.2%	238	10.1%	$2,927,500	8.5%
Total	**49**	**100%**	**2,347**	**100%**	**$34,397,734**	**100%**

* LIHTC for allocation years 2005 through round 1 of 2017. 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.