

# Will Recent Homebuying Trends Intensify Racial Wealth Gaps?

## Data show Black and Latino residents increasingly purchasing in unstable Gateway City neighborhoods

Benjamin Forman and Abraham Reiss<sup>1</sup>

COVID-19 and its aftermath will undoubtedly exert considerable stress on already fragile Gateway City real estate markets. Proactive efforts to stabilize Gateway City neighborhoods is commonsense economic policy given the increasing body of evidence that neighborhood conditions have a formative effect on individual well-being and strongly influence whether children born into poor families experience upward mobility.<sup>2</sup>

Adopting strong preventive measures to keep vulnerable Gateway City neighborhoods from spiraling downward is also a matter of racial justice. There is a long and well-documented historical link between racial discrimination in housing and racial disparity in wealth.<sup>3</sup> Events in the recent past compounded the problem. In the 2000s, predatory lenders ruthlessly targeted minority neighborhoods.<sup>4</sup> The resulting foreclosure crisis disproportionately im-

pacted Black and Latino residents and reduced their wealth.<sup>5</sup>

Boston's knowledge economy recovered quickly from the Great Recession and home prices rose rapidly. Sharply rising housing costs displaced many Black and Latino residents who rarely owned homes in Boston's historic communities of color and were now pushed to less expensive areas. Anecdotal reporting suggests that many of these households purchased housing in more affordable Gateway Cities, hoping to gain stability and build equity.

This research brief documents these home-purchasing trends using Home Mortgage Disclosure Act (HMDA) lending data and a neighborhood conditions index constructed with Census figures.<sup>6</sup> We conclude with a discussion of the implications of these patterns for the state's nascent neighborhood stabilization efforts.

### Key Findings

- Black and Latino homebuying rebounded after the Great Recession, but significant racial and ethnic disparities in mortgage origination rates remain, with persistently lower rates for Black buyers.
- Between 2007 and 2017, Massachusetts saw sharp declines in the share of Black and Latino residents purchasing homes in Boston and roughly proportional increases among Black and Latino buyers in Gateway Cities.
- Between 2010 and 2017, one out of four Black buyers and 30 percent of Latino buyers made purchases in neighborhoods vulnerable to decline. Within Gateway Cities, Black and Latino buyers were twice as likely as White Gateway City buyers to purchase in at-risk neighborhoods

# I. Analysis of Mortgage Lending Data

Below we summarize the movement of Black and Latino households from Boston to vulnerable Gateway City neighborhoods in the years following the Great Recession. Beginning with high-level statewide purchasing patterns and then drilling down into neighborhood conditions, our analysis reveals three major trends:

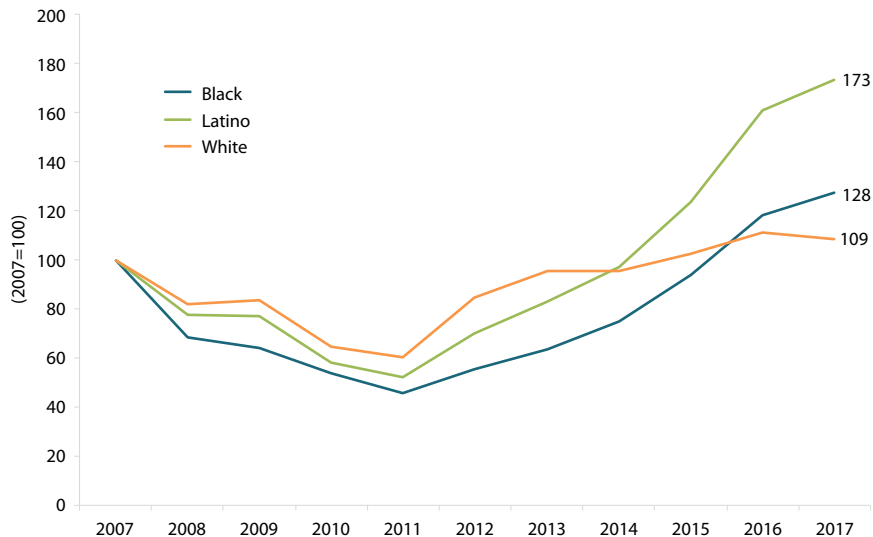
## 1. Black and Latino homebuying rebounded after the Great Recession, but significant racial and ethnic disparities in mortgage origination rates remain, with persistently lower rates for Black buyers.

Between 2007 and 2011, the volume of mortgage originations to Black and Latino residents of Massachusetts declined by about half. While the Great Recession's toll on mortgage lending to them was more muted, the 40 percent drop White households experienced over this time frame was still quite severe (Figure 1).

From 2011 to 2017, the number of mortgage originations to Black and Latino households grew rapidly as the economy recovered, bank balance sheets improved, and regulators eased up on lending restrictions. By 2017, mortgage originations to Black and Latino households were 28 percent and 73 percent higher than 2007 levels, respectively. This gain translates into a net increase of 690 Black buyers and 2,422 Latino home buyers across the state. For White households, mortgage originations grew by just 9 percent over 2007 levels. However, even with significantly higher growth rates for Black and Latino households, large racial and ethnic disparities remained.

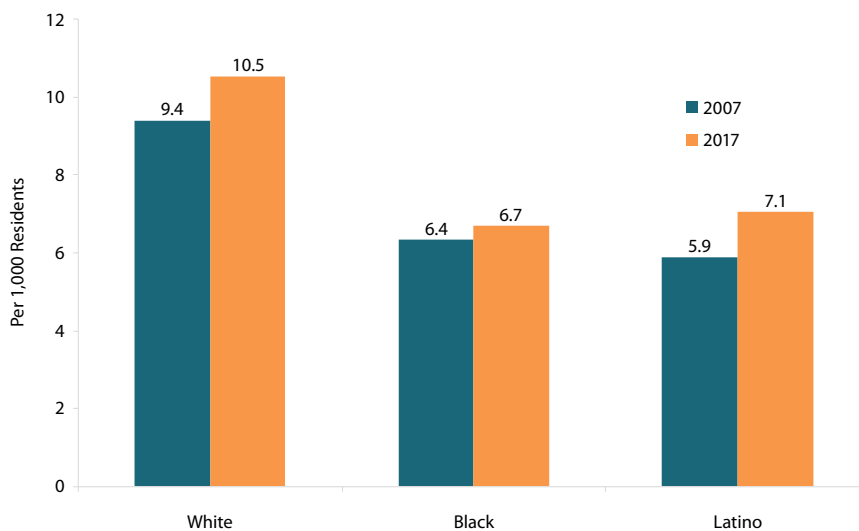
In 2017, mortgage originations per 1,000 residents climbed to 7.1 for Lati-

Figure 1. Number of mortgage originations in Massachusetts by race and ethnicity, indexed to 2007



Source: FFIEC HMDA data

Figure 2. Massachusetts mortgage origination rates by race and ethnicity, 2007 and 2017



Source: FFIEC HMDA data and US Census Bureau

no households, up significantly from 5.9 per 1,000 in 2007. Over this same period, mortgage originations to Black households only inched upward from 6.4 to 6.7, while origination rates for White borrowers grew from 9.4 to 10.5 (Figure 2). In percentage terms, the

gap between White and Latino rates fell from about 60 percent in 2007 to 50 percent in 2017. The White-Black disparity moved in the opposite direction, rising from 47 percent to 57 percent over this 10-year timeframe.

**2. Between 2007 and 2017, Massachusetts saw sharp declines in the share of Black and Latino residents purchasing homes in Boston and roughly proportional increases among Black and Latino buyers in Gateway Cities.**

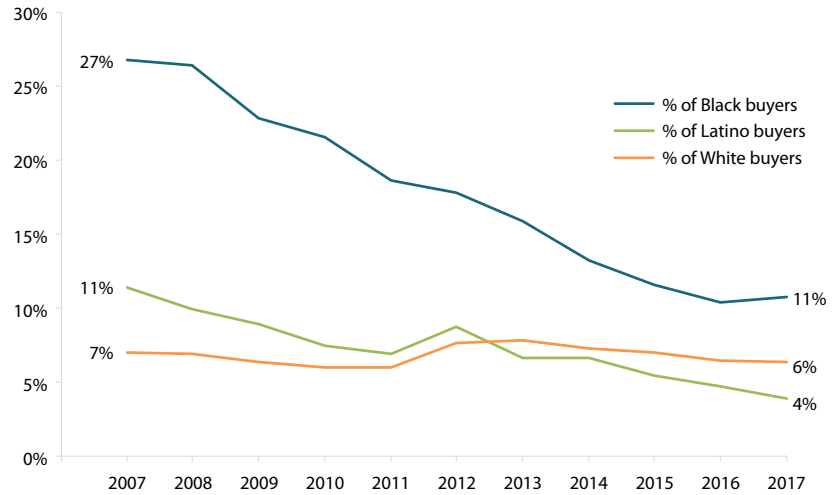
The dramatic increase in mortgage originations to Black and Latino residents was accompanied by significant changes in the locations where these households bought homes. Between 2007 and 2017, the share of Black and Latino buyers in Massachusetts purchasing within the city of Boston fell sharply (Figure 3). For both groups, rising shares of purchases in Gateway Cities offset the declines in Boston (Figure 4).

These data also show that more than one-quarter of the state's Black buyers purchased in Boston in 2007; in 2017, Boston accounted for 11 percent of homes purchased by Black residents. The 16-percentage-point drop in Black buyers purchasing in Boston was almost entirely matched by a 15-percentage-point increase in Gateway Cities. In 2017, more than half of Massachusetts' Black homebuyers (53%) purchased in one of the state's 26 Gateway Cities.

Over 60 percent of Latino buyers bought in Gateway Cities in 2017, up from 48 percent in 2007. For Latino households, the 12-percentage-point increase in Gateway City purchases was significantly larger than the 5 percentage-point decline in Boston.

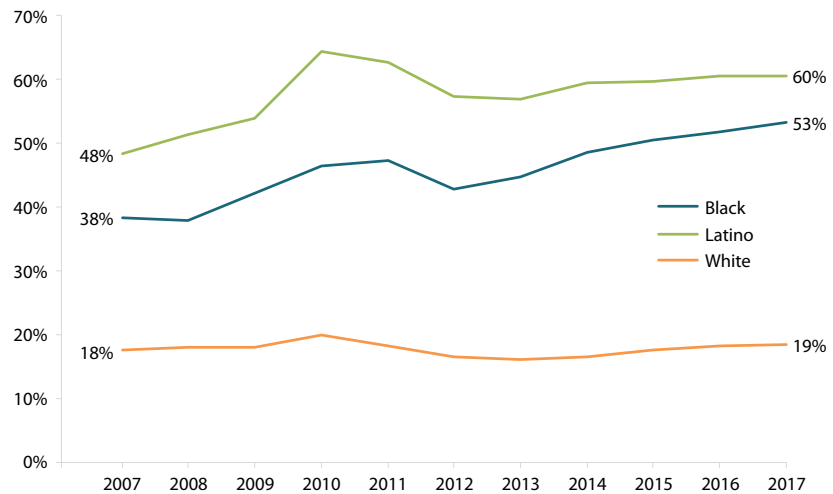
The general pattern of migration away from Boston and to Gateway Cities for Black and Latino buyers contrasts sharply with the trend for White buyers. After the Great Recession, the share of the state's White buyers purchasing in Boston rose slowly before declining slightly between 2013 and 2017. Conversely, the share of White

Figure 3. Share of Massachusetts mortgage originations to Boston buyers by race and ethnicity, 2007-2017



Source: FFIEC HMDA data

Figure 4. Share of Massachusetts mortgage originations to Gateway City buyers by race and ethnicity, 2007-2017



Source: FFIEC HMDA data

buyers purchasing in Gateway Cities fell initially and then rose slightly between 2013 and 2017. In both Boston and the Gateway Cities, the share of White buyers in 2017 was nearly identical to that in 2007.

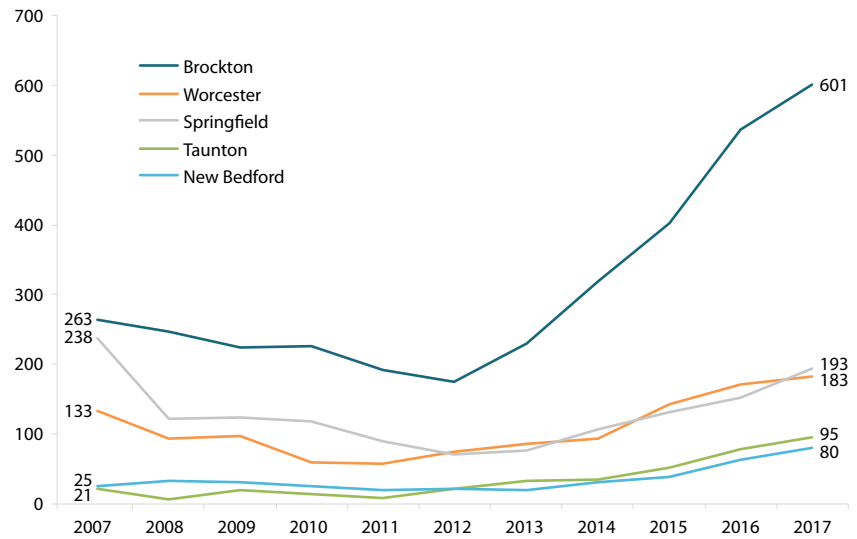
Further analysis shows that the movement of Black and Latino buyers was relatively concentrated based on race or ethnicity. Between 2011 and 2017, the annual number of Black buyers in Brockton nearly tripled to 601; in 2017, Brockton had three times more Black buyers than Springfield, the Gateway City with the second largest concentration of Black buyers (Figure 5). During the same period, the annual number of Latino buyers in Lawrence more than doubled to 460, overtaking Springfield as the city with the largest number of Latino purchases up until 2017 (Figure 6). The trend lines show the volume of Latino purchases in Springfield recovering to pre-Great Recession levels, whereas Gateway Cities closer to Boston saw large numbers of Latino homebuyers for the first time in the later years of the recovery.

Contrasting these figures with change in the number of absolute purchases in Boston provides additional perspective: The total number of mortgage originations to Black buyers in Boston fell from 670 in 2007 to 346 in 2017; for Boston's Latino buyers, mortgage originations fell from 376 in 2007 to 228 in 2017.

### Vanishing Federal Resources

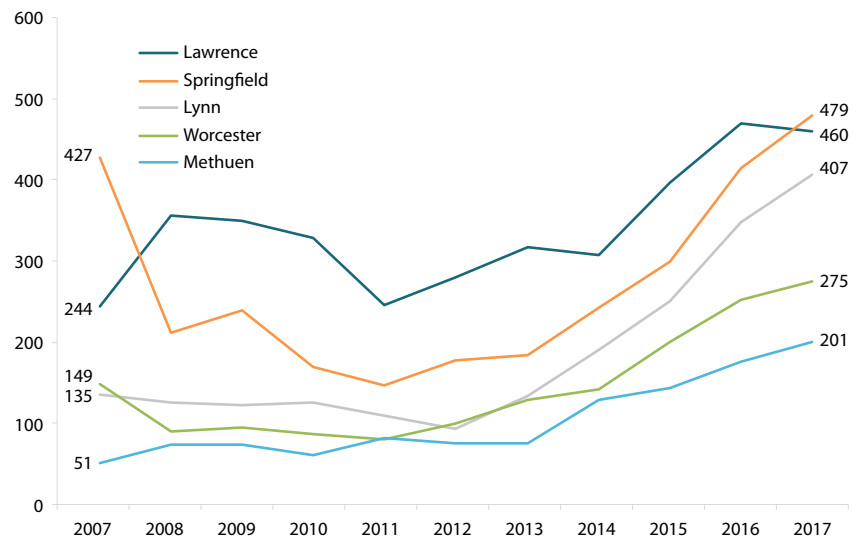
Communities can keep neighborhoods that experience stress from entering downward spirals, but to do so they need resources. The federal Community Development Block Grant (CDBG) program—the main funding pot for neighborhood stabilization activities—has been cut dramatically. Since 2000, CDBG block grants that Gateway Cities receive directly as entitlement communities have declined by half. And these deep cuts have come on top of even more significant reductions in the 1980s and 1990s. In 2018, Gateway Cities had just \$34 million in CDBG funding, \$102 million less than they had in 1980, adjusting for inflation. Lack of resources to respond to stressors quickly significantly increases the risk for families purchasing homes in vulnerable neighborhoods.

Figure 5. Annual mortgage originations to Black buyers in top 5 Gateway Cities, 2007-2017



Source: FFIEC HMDA data

Figure 6. Annual mortgage originations to Latino buyers in Top 5 Gateway Cities, 2007-2017



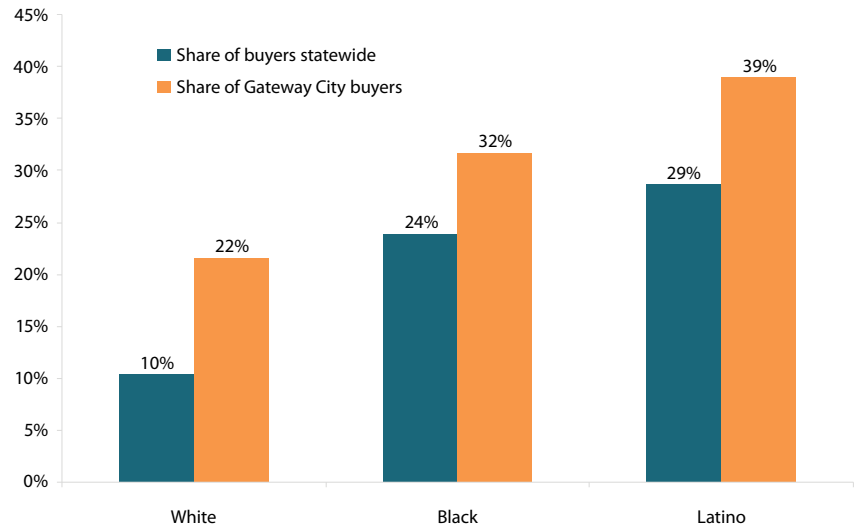
Source: FFIEC HMDA data

**3. Between 2010 and 2017, one out of four Black buyers and nearly 30 percent of Latino buyers made purchases in neighborhoods vulnerable to decline. Within Gateway Cities, Black and Latino buyers were twice as likely as White Gateway City buyers to purchase in at-risk neighborhoods.**

Neighborhood conditions are critical to social and economic well-being broadly and, in particular, to the prospects for home price appreciation and wealth building through homeownership. To develop a better understanding of how neighborhood conditions where Massachusetts residents purchase homes vary by race and ethnicity, we constructed an index with data from the 2010 American Community Survey. The index places Census tracts into percentiles based on a combination of poverty rates, long-term vacancy rates for residential housing units, and residential mobility (share of residents living in their home one-year ago). Combined, these metrics provide a multidimensional indication of neighborhood distress.<sup>7</sup>

Between 2010 and 2017, one out of four Black buyers and nearly 30 percent of Latino buyers made purchases in Census tracts that fell above the index's 75<sup>th</sup> percentile. In comparison, just 10 percent of White homeowners bought in these relatively distressed neighborhoods over the same time period (**Figure 7**). These unstable neighborhoods are disproportionately concentrated in the state's Gateway Cities. The 26 Gateway Cities contain 27 percent of the state's Census tracts, yet 48 percent of those above the index's 75<sup>th</sup> percentile.

**Figure 7. Share of buyers purchasing in unstable tracts by race and ethnicity, 2010-2017**



Source: FFIEC HMDA data and US Census Bureau



A home in Springfield rehabbed with funds from the federal Neighborhood Stabilization Program.

Between 2010 and 2017, nearly one-third of Black Gateway City buyers and about 40 percent of Latino buyers purchased in these relatively distressed tracts. In comparison, just 22 percent of White Gateway City buyers bought in these neighborhoods over the same period.

**Figures 8 and 9** trace Black and Latino home purchasing in selected Gateway Cities' most distressed Census tracts. Between 2010 and 2017, nearly one-third of both Black and Latino buyers in Worcester purchased in neighborhoods above the 75<sup>th</sup> percentile. In Springfield, about half of Black and Latino buyers bought in these relatively unstable areas. Similarly, more than half of Latino households purchasing in Lynn settled in the most unstable quartile of Census tracts.

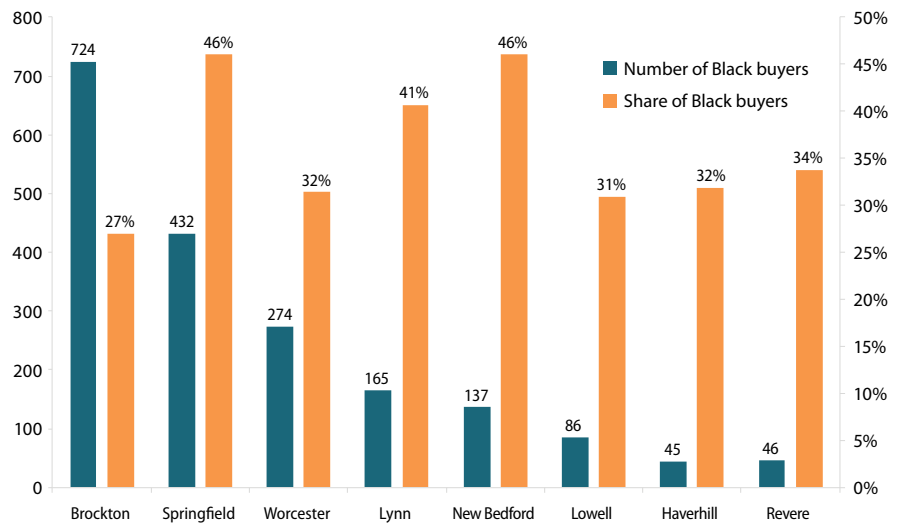
### Lessons from Massachusetts' Coordinated Response to the Great Recession

Given the limited resources available to cities, especially when municipal budgets contract during a downturn, it is critical to respond quickly to provide lifelines. Massachusetts moved rapidly in response to the Great Recession, marshalling state dollars, private resources, and federal stimulus funds to create the Neighborhood Stabilization Loan Fund (NSLF), led by the quasi-public Massachusetts Housing Investment Corporation (MHIC). Between 2009 and 2014, the NSLF acquired and rehabbed 608 units of housing and helped improve another 168 blighted units. The majority of these homes were located in a dozen Gateway Cities that were especially impacted by the foreclosure crisis.

The Attorney General's Abandoned Housing Initiative (AHI) also contributed to the coordinated response. With settlements the state won from predatory lenders, AHI helped cities defray legal fees and property-improvement costs when they made use of court-appointed receivers to address unsafe property conditions. Working together with the Attorney General's Office, the Massachusetts Department of Housing and Community Development (DHCD) and the Massachusetts Housing Partnership (MHP) trained communities to become more adept at using the receivership process as a neighborhood stabilization tool.

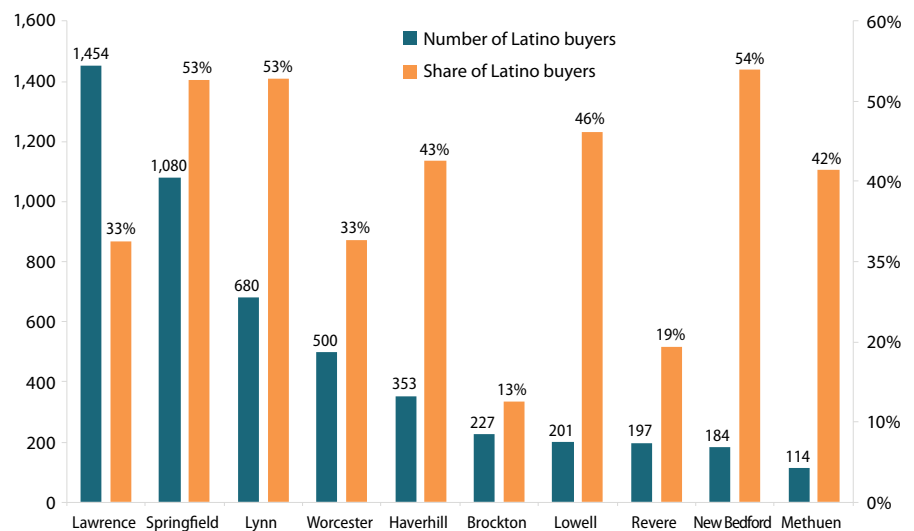
While the NSLF and AHI resources have been depleted, these programs built state and local capacity that still exists and can be tapped immediately to reduce the threat brought on by the pandemic.

**Figure 8.** Number and share of Black buyers purchasing in unstable tracts within each city, 2010-2017



Source: FFIEC HMDA data and US Census Bureau

**Figure 9.** Number and share of Latino buyers purchasing in unstable tracts within each city, 2010-2017



Source: FFIEC HMDA data and US Census Bureau

## II. Implications for State Neighborhood Stabilization Strategy

A January 2019 MassINC report documented the challenges Gateway Cities encounter in maintaining older housing stock in neighborhoods suffering from disinvestment.<sup>8</sup> These problems have been exacerbated by the loss of \$100 million annually in federal CDBG funds to Gateway Cities, and the depletion of the limited pool of state and federal resources available to address the lingering effects of the foreclosure crisis.

Over the past two years, Gateway City housing leaders worked with the Legislature and the Baker Administration to respond to this acute need. With a \$750,000 appropriation included in the FY 2020 budget, MassHousing is creating a new Neighborhood Stabilization Hub, which will offer technical assistance grants to support a variety of neighborhood stabilization activities in up to five Gateway Cities. The Legislature's pending omnibus economic development package includes a new \$40 million authorization, which will provide neighborhood stabilization efforts with resources to purchase and rehabilitate blighted property.

This spring, Gateway Cities also received additional CDBG dollars through the federal stimulus package. These funds are already stretched thin helping small businesses weather the COVID-19 crisis, but it is possible that future federal relief efforts will provide cities with another infusion of flexible CDBG dollars.

With a combination of HMDA and Census data, it is possible to develop a fine-grain view to help strategically deploy these limited resources in a manner that protects minority

borrowers and ensures that they are able to build equity in their homes.

For Gateway Cities within Greater Boston's tight real estate market, it is particularly important to get this formula right. The Housing Choice legislation that was also a component of the pending economic development bill will likely enable developers to build more affordable multi-family housing in desirable Boston suburbs. Without complementary efforts to strengthen more distant city neighborhoods, this could dampen demand for Gateway City homes, putting the investments of minority homeowners in these cities at further risk.

Lastly, it is important to improve our understanding of how and why mortgage lending to minority households varies throughout the real estate cycle. If lending restrictions adopted during economic downturns make it more difficult for people of color to purchase when home values fall, this will invariably translate into larger wealth gaps given the importance of market timing to return on real estate investments.

Gateway Cities are so named because ideally they afford opportunities for economic mobility and access to the American Dream. An affordable one- to three-family home in a Gateway City neighborhood should offer an entry point to homeownership for those with limited means. However, we must recognize that preserving this wealth-building pathway in neighborhoods susceptible to adverse events requires careful stewardship and nimble public policy.



A home rehabilitated through receivership in New Bedford.

# Endnotes

- 1 Benjamin Forman has served as MassINC's research director since 2010. Abraham Reiss is a junior at Cornell University studying political science.
- 2 For example, see Patrick Sharkey and Jacob Faber. "Where, When, Why, and for Whom Do Residential Contexts Matter? Moving Away from the Dichotomous Understanding of Neighborhood Effects." *Annual Review of Sociology* 40 (2014); Raj Chetty and others. "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment." *American Economic Review* 106.4 (2016).
- 3 For example, see Thomas Shapiro and others. "The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide." (2013); Kerwin Charles and others. "The Transition to Home Ownership and the Black-White Wealth Gap." *Review of Economics and Statistics* 84.2 (2002); George Galster and Erin Godfrey. "By Words and Deeds: Racial Steering by Real Estate Agents in the US in 2000." *Journal of the American Planning Association* 71.3 (2005).
- 4 Christine Barwick. "Patterns of Discrimination Against Blacks and Hispanics in the US Mortgage Market." *Journal of Housing and the Built Environment* 25.1 (2010); Jacob Faber. "Racial Dynamics of Subprime Mortgage Lending at the Peak." *Housing Policy Debate* 23.2 (2013).
- 5 Signe-Mary McKernan and others. "Less Than Equal: Racial Disparities in Wealth Accumulation." (Washington, DC: Urban Institute, 2013).
- 6 HMDA provides the most comprehensive set of detailed data tracking mortgage originations for owner-occupied one- to four-family properties. For this analysis, we relied on the HMDA dataset provided by the Federal Financial Institutions Examination Council (FFIEC), which extends through 2017. Data for 2018 and 2019 are available through the Consumer Financial Protection Bureau, which now has responsibility for overseeing HMDA compliance. For consistency, we limited our analysis to the FFIEC dataset. In this data, figures are recorded by reporting year. Data reported in 2017 cover loans made during calendar year 2016.
- 7 For simplicity, we analyzed purchases based on neighborhood conditions according to the 2010 ACS sample (which combines survey responses received between 2006 and 2010). However, analysis of more current ACS data reveals little change in the overall condition of these Census tracts. On average, poverty rates have remained stable, while vacancy rates have risen slightly and mobility rates have declined modestly.
- 8 Benjamin Forman and Alan Mallach. "Building Communities of Promise and Possibility: State and Local Blueprints for Comprehensive Neighborhood Stabilization." (Boston, MA: MassINC, 2019).

## ABOUT MASSINC

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The Massachusetts Institute for a New Commonwealth (MassINC) is a rigorously non-partisan think tank and civic organization. We focus on putting the American Dream within the reach of everyone in Massachusetts, using three distinct tools—research, journalism, and civic engagement. Our work is characterized by accurate data, careful analysis, and unbiased conclusions.

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