AFFORDABLE HOMEOWNERSHIP SERIES

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COMMUNITY CAPITAL MANAGEMENT

The Ongoing Challenges of Affordable Housing for Black and Minority Families

and How the Capital Markets Can Help Reduce the Homeownership Gap

Affordable housing is important to the economic vitality of communities. Studies show that children in stable housing do better in school and are less likely to experience disruption in their education due to unwanted moves. Decent, affordable housing reduces stress, toxins, and infectious disease, which leads to improvement in both physical and mental health. Affordable housing also frees up funds within families' tight budgets to spend on health care and food.[1]

Sadly, the supply of affordable housing is getting worse in the U.S.[2] CCM's 2021 report, *Addressing the Black Homeownership Gap in America*, points out how the gap in homeownership is worse for Black and minority Americans today than it was in the 1960s. Many factors contribute to the ongoing disparity in affordable homeownership, including the COVID-19 pandemic, refinancing opportunities, and property taxes. This perspective shares details on these three topical issues and concludes with opportunities for impact investors to utilize the capital markets to help reduce the homeownership gap.

In 1960, there was a 27-point gap between Black homeownership (38%) and white homeownership (65%); in 2019, there was a 30-point gap.[3]

COVID-19 Pandemic

The COVID-19 pandemic disproportionately impacted minority communities both as a disease and as a disruptive economic force. Minority borrowers bore the brunt of COVID-19's impact on the mortgage market, according to a report by economists at the Federal Reserves (Fed) of Atlanta, Philadelphia, and Boston.[4] Even before the pandemic, Black and Hispanic workers had substantially higher unemployment rates at every level of educational attainment than white workers. But the disparity widened in 2020 due to the pandemic and related shutdowns, only exasperating mortgage non-payments for these minority populations.[5] Minority borrowers were much more likely to experience mortgage distress during the pandemic period, leading to significantly higher nonpayment and forbearance rates. Based on borrowers who were current on their mortgages as of February 2020, 15.6% of Black borrowers missed at least one payment by February 2021, compared with 6.5% of white borrowers. In addition, minority borrowers have accumulated less housing equity over time than white borrowers, which could lead to a higher risk of foreclosures when the pandemic's forbearance plans wind down.[6] Bottom line, COVID-19 deepened long-standing disparities in the housing market.

Refinancing Opportunities

Interest rates were at their lowest levels in 2020, leading many Americans to refinance their homes. Even with these low rates, only 6% of Black borrowers refinanced their mortgages and 9% of Hispanic borrowers versus 12% of white borrowers. Of an estimated $5.3 billion of savings for all households that refinanced during the 10-month period examined in the Fed report, only $198 million, or 3.7%, went to Black households.[7]

A Freddie Mac Research Note observed that, on average, homeowners who refinanced their 30-year fixed-rate mortgage in 2020 saved more than $2,800 dollars annually and reduced their interest rate by a full percentage point.[8] However, even though a higher proportion of Black and Hispanic borrowers have a financial incentive to refinance, they refinance their mortgages at substantially lower levels than white borrowers.[9] Higher unemployment rates and higher missed mortgage payments deemed a number of Black and Latino borrowers ineligible to refinance. For those Black and minority borrowers who were able to refinance, historical discrimination in the financial system, such as redlining and being sub-prime loan victims in the 2000s, may have discouraged them from negotiating with their lender for a better mortgage rate. Additionally, limited education on refinancing may have contributed to minorities missing out on the opportunity.[10]

Redlining is the practice of putting financial and other services out of reach for residents in certain areas based on race or ethnicity.

> *The Fed is in this era of monetary policy accommodation, but I would argue it benefits people who are already more well-off.*[11]
>
> —**Sam Khater**, vice president and chief economist of the Economic and Housing Research division at Freddie Mac

Property Taxes

There is evidence that the property tax system has favored those who are better off — and as a result, contributes to institutional racism. Since the 1970s, local officials have overvalued the lowest-priced homes relative to the highest-priced homes across the U.S.[12] By inflating home valuations in lower-income, minority-majority neighborhoods, these households are responsible for paying higher property taxes. This increases the likelihood for low- and moderate-income (LMI) homeowners, most of whom are Black and minorities, to lose their homes due to late payments on taxes. Meanwhile, tax assessments

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in affluent areas have shown to undervalue homes, reducing taxes for higher-income homeowners.[13] A 2020 report from the Washington Center for Equitable Growth found that relative to market value, assessed property values are significantly higher for minority residents nationwide. Within the same tax jurisdiction, the researchers found, Black and Hispanic residents on average bear a 10% to 13% higher property tax burden than white residents.[14]

How the Capital Markets Can Help Reduce the Homeownership Gap

The gap in affordable homeownership stems from a variety of causes, including those mentioned in this piece. It will likely take years to correct this issue, and everyone can take part in a variety of ways. Investing in equity for all requires a holistic approach from the public sector to the private sector to supporting organizations, people, places, and activities making a difference. In CCM's report, *Connecting the Dots: The Intersection of Economic Equality Racial Justice and Sustainable Investing*, we mention that investors operate at the vital intersection of some of the most important issues and challenges of our times. Investing can serve as a complement to an organization's and/or investor's impact to this problem beyond grants and donations.

Impact investors can invest in products and strategies financing affordable housing initiatives, some of which are specifically intended to help minority borrowers. The need for affordable housing persists across the U.S. and impact investors can seek out opportunities to help in this effort. This can include state-issued bonds supporting affordable housing, social-purpose Real Estate Investment Trusts (REIT), private equity funds, Community Development Financial Institutions (CDFI), and mutual funds investing in pools of affordable mortgage loans.

One new option for investing in affordable homeownership is Impact Shares Affordable Housing MBS ETF (Ticker: OWNS). The Fund looks to provide investors the opportunity to invest in LMI families, minority families, and minority communities that have been historically underserved. The goal is to increase the amount of visible investment capital to purchase affordable loans and custom create MBS pools that can help increase the number of originations to minority borrowers.

CCM is excited to partner with **Impact Shares** as sub-advisor to this new product with the goal of unleashing the power of the capital markets to reduce the wealth gap in the U.S. via affordable homeownership.

About CCM

Community Capital Management, LLC (CCM) is an investment adviser registered with the Securities and Exchange Commission. Headquartered in Fort Lauderdale with employees in Boston, Charlotte, the New York City area, and Southern California, CCM was founded in 1998 and manages over $3.5 billion in assets. The firm believes a fully integrated portfolio — one that includes environmental, social, and governance (ESG) factors — can deliver strong financial performance while simultaneously having positive long-term economic and sustainable impact. CCM's strategies utilize an innovative approach to fixed income and equity investing by combining the positive outcomes of impact and ESG investing with rigorous financial analysis, an inherent focus on risk management, and transparent research. For more information, please visit: www.ccminvests.com.

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Carefully consider the Fund's investment objectives, risk factors, charges, and expenses before investing. This and additional information can be found in Impact Shares' prospectus and summary prospectus, which may be obtained by calling 844-448-3383, or by visiting https://impactetfs.org/. Read the prospectus carefully before investing.

Investing involves risk, including the possible loss of principal. Shares of any ETF are bought and sold at market price (not NAV), may trade at a discount or premium to NAV and are not individually redeemed from the Fund. Brokerage commissions will reduce returns.

Bonds and bond funds are subject to interest rate risk and will decline in value as interest rates rise. Mortgage-backed securities are subject to prepayment and extension risk and therefore react differently to changes in interest rates than other bonds. Small movements in interest rates may quickly and significant-ly reduce the value of certain mortgage-backed securities. This fund is non-diversified. As an actively managed Fund, it does not seek to replicate a specified index.

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