

Building Wealth and Racial Equality Through Homeownership

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COMMUNITY CAPITAL
MANAGEMENT



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Introduction

Homeownership is one of the primary tools for building wealth through price appreciation and by paying down one's mortgage. In addition to accumulating wealth, owning a home has numerous economic benefits, including building home equity, passing down generational wealth, and gaining long-term savings over the cost of renting. Sadly, household wealth remains much lower for Black, Indigenous, and People of Color (BIPOC) compared to white households. This report takes a closer look at household wealth, wealth disparities, and why homeownership is so important for reducing the racial wealth gap.

Household Wealth

American households lost about \$6.8 trillion in wealth over the first three quarters of 2022 as the stock market shed more than 25% of its value, according to the Federal Reserve (Fed). Even after adjusting for inflation, real household wealth was about 10% higher than it was in late 2019, just before the COVID-19 pandemic hit. And homeowners, in particular, were in good shape financially as September 2022 ended, with the equity in their houses rising to a near-record 70.5% of market value from a record low of 46% in 2012.²

The Fed has been collecting data on net worth and all its components since 1989 through the Survey of Consumer Finance (SCF). Occurring every three years, this project gives a snapshot of the state of wealth in the U.S. to assess economic well-being and thorny issues of income inequality, including trends over time. The most recent version of the SCF is from 2019. Below are key findings:³

- Median net worth in the U.S. is \$121,700, up 17.6 % from 2016.
- Average net worth is \$748,800, up a more modest 2% from 2016.
- Black and Hispanic families had strong gains in median net worth between 2016 and 2019, 30% and 64%, respectively, though the typical white family still has three to seven times the net worth.
- Four-year college degree holders have a median net worth more than four times that of someone with only a high school diploma.
- The top 10% of households own 76% of all wealth in the U.S., while the bottom 50% of households own just 1% of all wealth.

Oxford Languages defines household and wealth as follows:

house-hold (noun)
“A house and its occupants regarded as a unit.”

wealth (noun)
“An abundance of valuable possessions or money.”

If one combines these two definitions, it becomes:

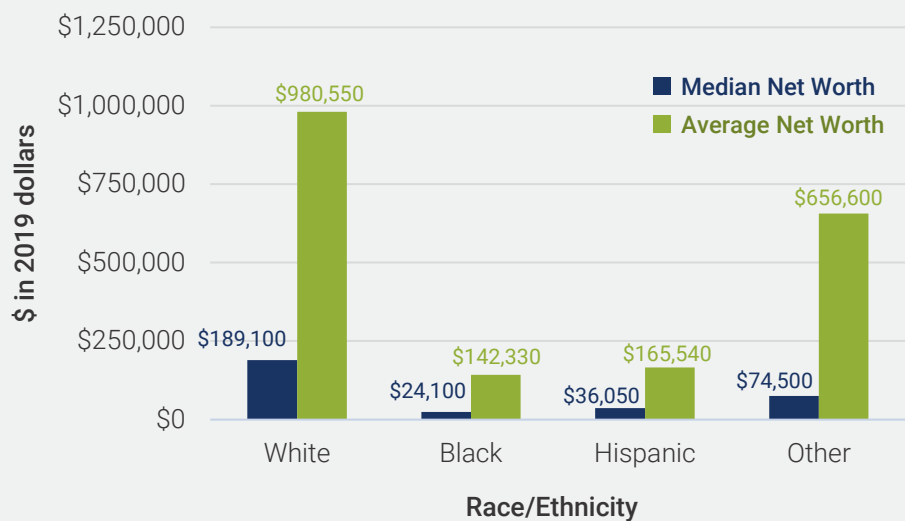
Household Wealth¹
“Household total net worth is the total value of assets (financial and non-financial) minus the total value of outstanding liabilities of households.”

This last key finding stands out. The bottom 50% of households own just 1% of all wealth. Looking closer at the data by median and average net worth by race/ethnicity in **Chart 1** below, median net worth for white families is almost 7 times that of Black families and 3.5 times that of Hispanic families. This disparity is almost the same wealth gap between Black and white families as before the Great Recession (in 2007) when white families' median net worth was a bit over 7 times that of Black and Hispanic families.

If homeownership is the primary way most families (of all income levels) build generational wealth and achieve financial stability, imagine how drastic this data could change for the better if minority households had better access to affordable homeownership.

Chart 1:
Median and Average
Net Worth by Race/
Ethnicity

Source: Federal Reserve
- Survey of Consumer
Finances, 1989-2019⁴



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

Wealth Disparities

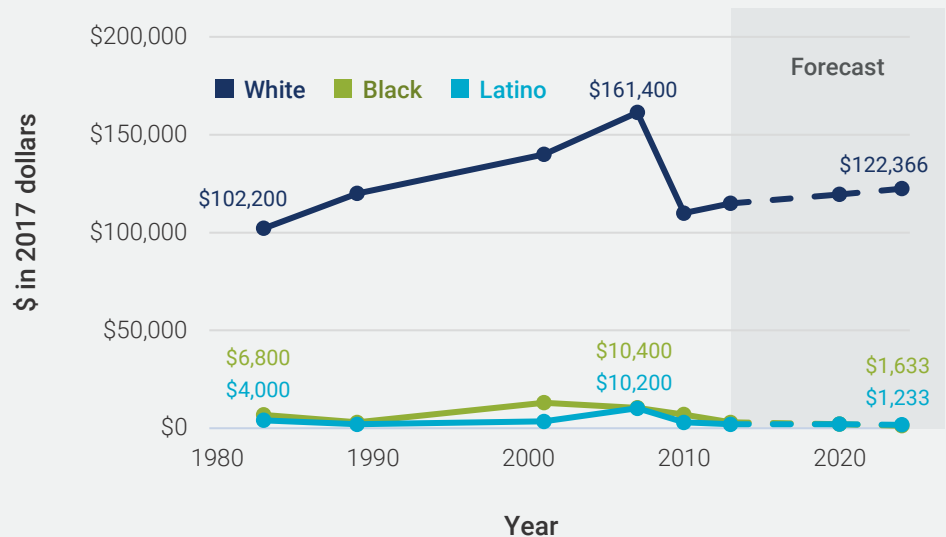
Homeownership is one of the primary tools for building wealth, but homeownership has failed to benefit BIPOC homeowners as much as it has benefited white homeowners because of a long history of unequal treatment. In the 1930s and 1940s, government programs from the New Deal to the GI Bill systematically excluded minorities from housing, access to the credit markets, and even education. This economic disincentive included “redlining” and is a primary contributor to racial wealth disparities in the U.S. today.



Chart 2 shows the scale of America's racial wealth divide. Since 1983, Black and Latino families have seen their wealth fall considerably to just \$1,700 and \$2,000 from \$6,800 and \$4,000, respectively, in 1983. Even though white households took a hit during the financial crisis, they still boasted a median wealth of \$116,800 in 2013. Forecasts show the gap to continue to widen even further in the years ahead with Black household wealth declining 30% by 2024. The median Latino household will see its wealth fall 20% while white households are expected to experience a 5% increase by the same time.⁵

Chart 2:
Median Household
Wealthy by Race/
Ethnicity in the U.S.
(1983-2024)

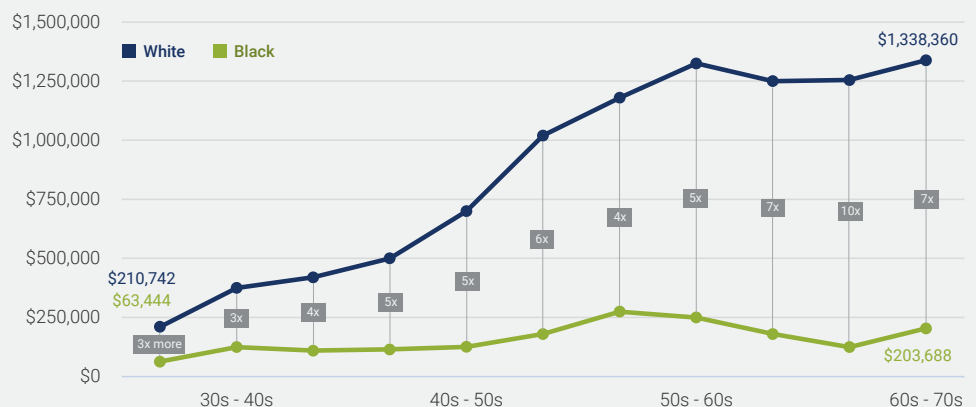
Source: Prosperity
Now & Institute for
Policy Studies⁶



Data also shows the racial wealth gap growing sharply with age in **Chart 3**. White families accumulate more wealth over their lives than Black or Hispanic families. In their 30s, white people have an average of \$147,000 more in wealth than Black people (three times as much). By their 60s, white people have over \$1.1 million more in average wealth than Black people (seven times as much).⁷

Chart 3:
Average Family
Wealth for Those
Born 1943-51 by Race

Source: Urban Institute
calculations from
Survey of Consumer
Finances 1983-2016



Another disparity among race and homeownership is in mortgage application denials. People didn't have the same opportunities to get a home loan and benefit from low rates in 2020, according to the National Association of Realtors (NAR) 2022 Snapshot of Race and Home Buying in America report. Data shows that Black home buyers and owners faced extra challenges in getting a mortgage. Denial rates vary significantly by race/ethnic group, with Black Americans having the highest denial rates for purchase and refinance loans. Black applicants were twice as likely to be denied for a mortgage compared to their white counterparts, according to NAR's analysis. While the main reason a mortgage lender rejected their application is the debt-to-income ratio, Black home buyers reported that they also were rejected due to a low credit score.⁸

Chart 4:
Mortgage Denials by
Race and Ethnic
Distribution

	Black/African American	Asian/Pacific Islander	Hispanic/Latino	White/Caucasian
Have had application denied	7%	3%	7%	4%
Median number of times application was denied	2	1	1	1
Reason for being rejected by mortgage lender				
Debt-to-income ratio	32%	40%	44%	33%
Low credit score	43	10	3	18
Income was unable to be verified	*	33	4	12
Not enough money in reserves	14	*	15	7
Insufficient down payment	9	*	11	8
Too soon after refinancing another property	*	*	*	1
Don't know	14	*	11	6
Other	14	20	26	42

Source: 2021 Profile of Home Buyers and Sellers, NAR

* Less than 1 percent

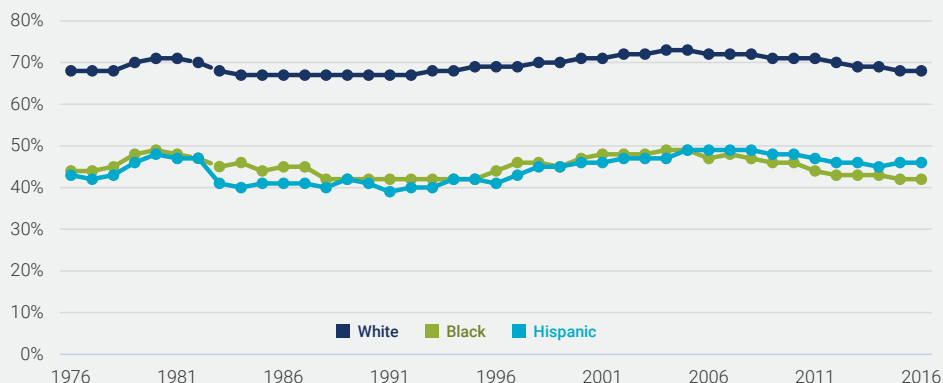
In addition to the financial and wealth building aspects of owning a home, homeownership is also important to the economic vitality of communities. Research has shown that the stability of an affordable mortgage can have profound effects on childhood development, school performance, and health outcomes for families and individuals.¹⁰

Why Homeownership Is So Important for Reducing the Racial Wealth Gap

For millions, owning a home remains at the heart of the American dream. Increasing opportunities for homeownership is a key component in combatting historical housing policies that have precluded minorities and others from purchasing a home and widened the racial wealth gap.⁹

Sadly, BIPOC families lag behind on major wealth-building measures, like homeownership. They are less likely to own homes, so they more often miss this powerful wealth-building tool. **Chart 5** shows that in 1976, 68% of white families owned their home, compared with 44% of Black families and 43% of Hispanic families. By 2016, the homeownership gap had narrowed slightly for Hispanic people but widened for Black people. Black and Hispanic families were also less likely to own homes than white families with similar incomes.

**Chart 5:
Homeownership
Rate by Race/
Ethnicity, 1976-2016**



Source: Urban Institute calculations from Current Population Survey 1976-2017. 1976-2014 values from Census Historical Household Surveys, Table HH-5. 2015-16 values from Census Annual Statistics 2016, Table 22.

Note: White homeownership rate includes Hispanic whites. The 2016 homeownership rate for non-Hispanic whites is 72%.



Homeownership is important for accumulating and passing on wealth, which means the trailing homeownership rate further impacts BIPOC's ability to build generational wealth over time. Parents who own their own home pass to their children a myriad of benefits that go along with homeownership. Children who grow up in family-owned homes have a financial and emotional safety net that helps propel them into prosperity and success as they become adults. BIPOC families historically denied homeownership have been ensnared in a multi-generational cycle that has locked many of them out of much of the American economic system.



Download our perspective, ***OWNS: A Capital Markets Solution for Bridging the Racial Wealth Gap***, to learn how an **exchange-traded fund (ETF)** can provide capital to historically underserved communities, thus seeking to reduce the racial wealth gap through affordable homeownership.



James's Story: Creating Wealth and Opportunities

James Malone is chief financial officer and diversity officer at CCM. We are grateful that he is sharing a personal story about the positive impacts of creating wealth and opportunities as it relates to homeownership.



I think about my own life and the multiple experiences and individuals that contributed to my success. One of those individuals is my aunt, who I affectionately call Auntie B. My Jamaican Auntie B immigrated to Boston from England in 1969 to work as nurse at one of the major hospitals in the area. Within a year, she had the desire to purchase a home in a beautiful neighborhood in the suburbs of Boston.

This was during a time when the practice of redlining was still in play, although the Fair Housing Act (FHA) was passed. She had her kind, white co-workers cover for her, and they even attended a couple of in-person meetings on her behalf. Her well-developed British accent did not give away her race during phone conversations with bankers reviewing her information for a home loan. Her mortgage was approved and when she showed up to sign the documents, the bankers and selling broker were all shocked that she was a person of color. Racially inappropriate comments were made, but it was too late. The financing was approved, and she successfully purchased her first home for \$25,000 with an FHA loan. Her church friends and relatives could not believe she successfully purchased a home in that neighborhood with a reasonably priced mortgage. Because of discrimination, they were still renting and living in redlined areas.

As a result of her home purchase, she was able to build middle-class wealth over the years. And because of that purchase, 23 years later, she was able to financially help and give free room and board (in that same home) to her young nephew (me), who migrated from the Caribbean with only \$1,000 in his pocket and a dream to get a quality education at an excellent university in Boston. Today, Auntie B lives in Florida and takes care of herself financially, which is a very different outcome compared with some of her friends and relatives who were not afforded the same opportunity. That same two-family house is valued at nearly \$1 million today.

Dismantling structural racism that leads to economic inequities and investing with purpose in these communities is not just an exercise in theory for me.





Conclusion

Home is where the heart is and home is where the wealth is too. One of the key contributors to wealth building is through homeownership. Even with volatility in the housing market, studies have demonstrated that homeownership leads to greater wealth accumulation when compared with renting. Renters don't capture the wealth generated by house price appreciation, nor do they benefit from the equity gains generated by monthly mortgage payments, which become a form of forced savings for homeowners.¹¹ Finding ways to increase homeownership opportunities for all income levels and ethnicities is critical to wealth building and for reducing the racial wealth gap that persists.

About CCM

Community Capital Management, LLC (CCM) is an investment adviser registered with the Securities and Exchange Commission. CCM was founded in 1998 and manages \$4 billion in assets. The firm believes a fully integrated portfolio — one that includes environmental, social, and governance (ESG) factors — seeks to 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.

¹ <https://data.oecd.org/hha/household-net-worth.htm>

² <https://www.marketwatch.com/story/household-wealth-down-by-13-5-trillion-in-2022-second-worst-destruction-on-record-11670623787>

³ <https://financebuzz.com/us-net-worth-statistics#sources>

⁴ <https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/>

⁵ <https://www.forbes.com/sites/niallmccarthy/2017/09/14/racial-wealth-inequality-in-the-u-s-is-rampant-infographic/?sh=55529cbb34e8>

⁶ <https://www.forbes.com/sites/niallmccarthy/2017/09/14/racial-wealth-inequality-in-the-u-s-is-rampant-infographic/?sh=55529cbb34e8>

⁷ <https://apps.urban.org/features/wealth-inequality-charts/>

⁸ <https://www.nar.realtor/blogs/economists-outlook/racial-disparities-in-homeownership-rates>

⁹ <https://www.lisc.org/our-stories/story/wealth-building-and-homeownership-new-federal-policies-could-help-drive-equity-and-opportunity/>

¹⁰ <https://www.habitat.org/our-work/how-housing-affects-child-development>

¹¹ <https://blog.firstam.com/economics/homeownership-remains-strongly-linked-to-wealth-building>

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