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SEPARATE AND UNEQUAL: THE LEGACY OF RACIAL DISCRIMINATION IN HOUSING

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BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING THE LEGACY OF HOUSING DISCRIMINATION

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SEPARATE AND UNEQUAL: THE LEGACY OF RACIAL DISCRIMINATION IN HOUSING

TUESDAY, APRIL 13, 2021

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10 a.m., via Webex, Hon. Sherrod Brown, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN SHERROD BROWN

Chairman BROWN. The hearing of the Senate Banking, Housing, and Urban Affairs Committee will come to order. This hearing is in the virtual format. A few reminders as we begin.

Once you start speaking, there will be a slight delay before you are displayed on the screen. To minimize background noise, please click the mute button until it is your turn to speak or ask questions.

You should have one box on your screens labeled "Clock" that will show you how much time is remaining. For witnesses, you will have 5 minutes for opening statements. For all Senators, the 5-minute clock still applies to questions.

At 30 seconds remaining for your statements and questions, you will hear a bell ring to remind you that your time has almost expired. It will ring again when your time has expired.

If there is a technology issue, we will move to the next witness or Senator until it is resolved. To simplify the speaking order process, Ranking Member Toomey and I have agreed to go by seniority for this hearing.

On Sunday, we marked the 53rd anniversary of the passage of the Fair Housing Act. Fifty-three years ago, jarred by the assassination of the Reverend Dr. Martin Luther King, our country finally made it illegal to refuse to sell a home or rent an apartment to someone based on the color of their skin. It was a historic moment. It was a hard-fought victory for civil rights advocates. And it was not so long ago when you look at the long arc of history.

Black Americans had endured centuries—that is generation after generation after generation—of slavery, only to be locked into second-class citizenship by the Black Codes and Jim Crow laws that made it nearly impossible to get a good-paying job, to keep a reliable bank account, and, as we all know, even to vote. As my friend Joyce Beatty said recently, we cannot change our history. But we can learn from it, and we can build a far better future—one that brings us closer to making our founding ideals real for everyone.

Fair housing took longer to pass through Congress than did voting rights or desegregation of public spaces, even equal opportunities for employment. As important as these advancements were, they did not come in time to help communities of color benefit from the historic investments that our Government made, that we as a society made, in American families and communities in the last century. Beginning with the New Deal and continuing through the 1960s, we tried a new, grand experiment in this country. We invested in workers and in the infrastructure that they needed to succeed. In the process, we built the largest, broadest middle class the world had ever seen.

But that deal remains unfinished because too many were purposefully left out.

We created the Federal Housing Administration to make the dream of home ownership, and the wealth that comes with it, available to millions more families. But FHA limited its loans to neighborhoods that were deemed "good" investments—neighborhoods with White, non-immigrant residents. Neighborhoods with Black and Brown immigrant residents and near industrial sites were "redlined" and called "hazardous."

From 1934 to 1968, FHA helped finance more than $120 billion worth of loans; 98 percent—think of that—98 percent of that $120 billion, 98 percent of that went to White borrowers. We put Americans to work building the interstate highway system, the infrastructure that would unleash new levels of American prosperity.

But Federal highways cut right through Black and minority neighborhoods in cities like Cleveland and Baltimore and New York, severing tight-knit communities, destroying homes and small businesses, replacing them with traffic and pollution. Following these decades of exclusion and destruction, the Fair Housing Act offered enormous promise. It did not just ban racial discrimination; it also required that new Federal funds be used in ways that would affirmatively further fair housing. In other words, we recognized it was not possible to start from scratch. Our housing system had our history woven into it, and we would need to take active steps to include Black Americans and all those left out.

George Romney, the father of our colleague Mitt, became HUD Secretary the year after the Fair Housing Act was passed. He set out to fulfill that mission: to require communities to use their Federal grants to build better housing and take active steps to include everyone, as required by the new law.

But Secretary Romney did not get very far. President Nixon and his Southern Strategy blocked Secretary Romney's implementation of the Fair Housing Act, and it stayed that way for decades. Housing discrimination was illegal beginning in 1968, but communities of color lived in the cities we had already built and then abandoned, and lived with the wealth inequality we had already grown.

Minority communities continued to lose out on investment. FHA no longer used redlining maps—they were illegal—but communities of color still saw banks take their deposits and still refused to make them mortgage loans. Congress passed the Community Reinvestment Act, requiring banks to serve the communities whose money they relied in part on to make profits. But the same neighborhoods—the ones that had red lines drawn around them a few decades earlier—never got the same investment that others did. And after nearly three decades later, lenders seemed to finally discover the minority communities they had been neglecting for decades. But that discovery did not lead to positive investments to help communities build wealth and grow new businesses. Instead, predatory lenders wiped out the hard-won gains Black and Brown families had made in the years since 1968. They targeted people in lower-income and minority communities for predatory subprime loans and refinances. In 2003, President Bush's HUD Secretary, Mel Martinez, told this Committee that predatory lending posed "a significant danger to minority and women homeowners targeted for equity-stripping loans," and he went on to say that some loans had "abusive terms and conditions" that may violate the Fair Housing Act.

Of course, we know what happened. We remember the foreclosures that swept through neighborhoods in waves. We remember the signs that went up on home after home. Black and Latino homeowners were 70 percent more likely to face foreclosure. Today Black, Latino, and Asian families are far less likely to own a home than White families. The Black home ownership rate is as low as it was 53—think about that. The Black home ownership rate is as low as it was 53 years ago, when housing discrimination was still legal. The wounds of redlining remain as fresh as ever. We know where you live determines so much about your life—what schools you go to, the kinds of jobs available, how far you have to travel to get to work, the air you breathe, the water you drink, even how long you live.

Residents in those neighborhoods that were systematically excluded from investment—many of them people of color—have lower life expectancies and are more likely to have preexisting conditions. Take a walk around the city where Mr. Husock and I, where he grew up, where I live now, look and you can still see the scars of the foreclosure crisis in the same neighborhoods that were colored in red in the maps of the 1930s. Come to my Zip code, 44105, in the city of Cleveland; we had more foreclosures in that Zip code in the first half of 2007 of any place in the country.

In these neighborhoods, you will find higher rates of lead exposure, toxic pollution, and infant mortality. Take a look at maps of COVID–19 deaths; they just happen to match up with those redlining maps pretty well.

Our past is still determining people's lives today. That is the reason for this hearing. That is why the work of this Committee matters. We cannot change our history, but it does not mean we throw up our hands and tell millions of Americans, "Sorry, this is the best we can do." Because we know it is not. Remember all those infrastructure investments we made in the 1930s and in the years after World War II? Remember how we created millions of new homeowners and created the middle class in this country? Something the world had never seen.

There is no reason we cannot do the same thing again, but this time we bring along everyone.

On this Committee, we have an opportunity to address the legacy of housing discrimination. We have an obligation, under the law that this body passed more than five decades ago, in the wake of

Dr. King's assassination. I look forward to hearing from today's witnesses about how we can begin to do just that.

Ranking Member Toomey, you are recognized. Thank you.

OPENING STATEMENT OF SENATOR PATRICK J. TOOMEY

Senator TOOMEY. Thank you, Mr. Chairman. And let me say from the outset that a history of racial discrimination in housing is a real and sad part of our Nation's history. We cannot ignore that. It is a fact. It is also a fact that Government policies contributed to this discrimination very significantly.

Some Federal Government policies were, in fact, designed to increase segregation. We all know and the Chairman alluded to fact that the FHA engaged in redlining practices, where for decades, FHA insurance was often limited to newer developments outside of inner-city neighborhoods, exacerbating segregation.

We also know that Davis–Bacon wage requirements were designed to protect White union labor and to prevent Blacks from competing for federally funded construction jobs. Even today, Davis–Bacon continues to impede lower-income and minority workers from opportunities, and it drives up the construction costs for Government-assisted housing.

We also know that some State and local government policies have contributed to exacerbating segregation. Some zoning practices—such as prohibitions on multifamily housing and minimum lots sizes—can have legitimate purposes for many communities. However, they sometimes do great harm. They can price low-income and minority families out of neighborhoods, and they reduce the supply of affordable housing for these families. Many of the markets with the most severe shortages in affordable housing have the most restrictive regulatory barriers to housing development.

In San Francisco, for example, zoning regulations may have been responsible for more than 50 percent of total housing costs, according to one National Bureau of Economic Research study. In my view, this history shows us that when it comes to housing in America, including housing discrimination, Government has often been the problem, not the solution. And, unfortunately, the Biden administration does not seem to have learned this lesson. Its new multitrillion-dollar welfare plan, with a bit of infrastructure sprinkled in, seems designed to repeat many of the great mistakes of the New Deal and Great Society. After Congress has just finished spending more than $80 billion for housing in response to COVID—on top of the $50 billion we spend annually on HUD programs alone, not to mention the many billions we spend on other housing programs, then there is the tens of billions at least that we forgo in tax revenues to subsidize housing—now, in addition to all of that, the Biden administration is calling for $213 billion in new spending for housing in its so-called infrastructure plan.

Amazingly, the Administration wants Congress to spend $40 billion to restore public housing projects—places where people generally do not want to live. Housing projects are notorious concentrations of poverty, crime, and other social ills. And research shows that moving families out of housing projects and integrating them into broader communities decreases violent crime. But rather than focusing on sensible alternatives, the Biden administration wants to keep families in housing projects. More public housing will only commit more Americans to a substandard living arrangement and increase Government dependency.

We also should not rush to put families in homes they cannot afford. Relaxing underwriting requirements or expanding downpayment assistance programs for low-income families, especially in an overheated housing market, is a recipe for disaster. If home values drop—and eventually they very well may—these borrowers run the very real risk of losing their homes and any wealth they thought they had accumulated. And we have seen this happen before, most recently during the 2008 housing crisis when Government monetary and housing policy created a housing bubble, the bursting of which caused the financial crisis and then the Great Recession.

The Administration's infrastructure plan also calls for $20 billion in tax credits for building and rehabilitating homes and making them more energy efficient. These tax credits will inevitably predominantly benefit developers and investors largely because they are not targeted to low-income families. In fact, homes built with tax credits can be sold to purchasers with incomes up to 140 percent of the area median income, not the poverty level.

The Administration's plan also prioritizes using union labor to upgrade homes, and this unfairly excludes lower-income, nonunionized laborers, and it increases construction costs that will inevitably be passed on to homeowners.

Today we are going to hear from two witnesses who will discuss how Government intervention, even when well-meaning, has contributed to inequality. Howard Husock is a housing researcher and scholar. As Mr. Husock will note, many "race-conscious" policies have not actually increased home ownership opportunities or wealth in underserved communities. Public housing has deprived many minority communities of the opportunity to build wealth. The Community Reinvestment Act is out of date and poorly designed to encourage lending in minority neighborhoods, and it does not track whether investments actually help or hurt families. And overly prescriptive Affirmatively Furthering Fair Housing requirements that put only a handful of low-income families in subsidized rental homes in affluent areas does little to support minority families or help them build wealth through home ownership.

We will also hear from Tobias Peter, an expert in housing finance. He notes that policies aggressively encouraging low-income or minority people to buy homes—especially during a boom when houses are very expensive—expose borrowers to greater default risk during dips in the market. He argues that risky lending harms low-income borrowers who purchase homes when home prices are inflated. And he believes that local governments need to remove zoning restrictions and other regulatory barriers to housing that artificially constrain the supply of housing and drive up costs.

It is important to remember that the legacy of discrimination is often a direct result of Government-supported policies. As we consider how to address the housing challenges we face, we should not repeat the mistakes of the past. Now is not the time to double down on failed efforts, and that means we should not keep American families in dilapidated and segregated housing projects; we should not let bureaucrats in Washington make local housing decisions that undermine communities; and we should not inappropriately push families to purchase homes they cannot afford in the long run.

The lesson we need to learn and apply is: When it comes to housing in America, Government has often been the problem, not the solution.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Toomey, for your comments. I will now introduce the five witnesses.

Richard Rothstein, who is testifying for Sherrilyn Ifill, who could not be with us today, is a senior fellow, emeritus, with the NAACP Legal Defense and Educational Fund. He is also a distinguished fellow of the Economic Policy Institute, a senior fellow at the Haas Institute at the University of California, Berkeley, and author of the book "The Color of Law". Those of you who know this Committee know I have recommended this book many, many times, as well as the book "Evicted".

Lisa Rice is the president and CEO of the National Fair Housing Alliance. I count her as an Ohioan. Prior to her work at NFHA, Ms. Rice spent 21 years at the Toledo Fair Housing Center where she had become president and CEO.

Jason Reece is an assistant professor of city and regional planning at the Knowlton School of The Ohio State University. He previously served in multiple research positions at Ohio State's Kirwan Institute for the Study of Race and Ethnicity and worked with communities as a capacity builder as part of the HUD's Sustainable Communities Initiative.

Howard Husock, from Cleveland, as I said, is an adjunct scholar at the American Enterprise Institute. Prior to joining AEI, Mr. Husock held multiple positions at the Manhattan Institute and served as director, author, and executive education program instructor at Harvard's Kennedy School of Government.

Tobias Peter is a research fellow and director of research at the American Enterprise Institute Housing Center. He previously served as a senior research analyst with the Housing Center.

We will begin with Mr. Rothstein. Thank you for joining us.

STATEMENT OF RICHARD ROTHSTEIN, SENIOR FELLOW, EMERITUS, NAACP LEGAL DEFENSE AND EDUCATIONAL FUND, INC.

Mr. ROTHSTEIN. Good morning, Chairman Brown, Ranking Member Toomey, and Members of the Committee. Thank you for this opportunity. I am, as the Chairman said, Richard Rothstein, a distinguished fellow of the Economic Policy Institute and a senior fellow, emeritus, of the NAACP Legal Defense and Educational Fund, Inc. I am here on behalf of myself and of Sherrilyn Ifill, the president and director-counsel of LDF that was founded in 1940 by Thurgood Marshall and separated from the NAACP in 1957.

The LDF has long worked to promote racial integration and opportunity in housing. Ms. Ifill and I have submitted written testimony that expands on my brief remarks.

I am also, as you heard, the author of a book, "The Color of Law", that disproves the myth of de facto segregation. In truth, we are residentially segregated not naturally or for private bigotry, but primarily by racially explicit Federal policies, State and local as well, designed to prevent African-Americans and Whites from living as neighbors. These 20th century policies were so powerful that they determine much of today's residential, social, and economic mobility.

Because powerful Government policies segregated us, racial boundaries violate the Fifth, Thirteenth, and Fourteenth Amendments. Our Nation thus has a positive constitutional obligation to redress segregation with policies as intentional as those that segregated us.

The Federal Government made housing and home ownership critical to families' economic stability and upward mobility, but we routinely excluded Blacks from Government benefits that propelled Whites into the middle class. Perhaps Government's most powerful unconstitutional policy was the Federal Housing Administration's guarantee of developers' bank loans to suburbanize the city-dwelling White working class and returning World War II veterans into single-family homes in all-White communities, creating a White noose around Black city neighborhoods. The homes were affordable, about $100,000 in today's dollars, to both Black and White veterans and urban residents who had jobs in the post-war boom. But African-Americans were prohibited by explicit policy from participating. This was not done by rogue bureaucrats at the FHA or Veterans Administration, an agency that followed FHA policy. It was spelled out in the FHA's underwriting manual, distributed to appraisers who evaluated builders' applications. The manual said a proposal could not benefit from Federal subsidy if it included African-Americans in a White project. The manual even required denial of loans for all White projects located near where Black families lived because that would "risk infiltration by inharmonious racial groups." This notion of de facto segregation is utter nonsense.

These inexpensive federally subsidized Whites-only homes now sell for $300,000, $400,000, in some areas $1 million or more. Whites gained wealth from equity appreciation and used it to send children to college, to finance short-term layoffs or medical treatment, to enhance retirement, and to bequeath wealth to children and grandchildren who then had downpayments for their own homes.

African-Americans were prohibited by explicit Federal policy from doing the same. Today Black family incomes are about 60 percent of White incomes. You would think Black wealth would also be about 60 percent of White wealth. Households can save the same amounts from the same incomes. But, in reality, Black wealth is only about 5 percent of White wealth. That enormous disparity between a 60-percent income ratio and a 5-percent wealth ratio largely results from unconstitutional Federal policy that we have an obligation to remedy, one we have never embraced.

Another Federal policy that segregated us was public housing, something we now think is for the poor, but it began in the New Deal for families who remained employed and could pay full rent. Government built it to meet a housing shortage, but did not subsidize it. Yet Government segregated it, creating separate projects for Whites and Blacks, frequently segregating previously integrated neighborhoods. The great African-American poet, novelist, and playwright Langston Hughes wrote in his autobiography that he lived in an integrated downtown Cleveland neighborhood. In high school, his best friend was Polish, and he dated a Jewish girl. It was an integrated school in an integrated neighborhood. But the Public Works Administration cleared part of it to build separate projects—one for Whites, one for Blacks—creating segregation where it had not existed. This policy was followed nationwide, creating segregated patterns that persist today.

It was only after Whites were subsidized to leave public housing for all-White suburbs that public housing became almost all black. When industrial jobs disappeared from cities, residents no longer had access to good jobs and required subsidies.

Contemporary land use has been layered atop an infrastructure created by decades of racially discriminatory policies. Failure to remedy these injustices has created multiple crises. Home ownership is out of reach for many. Renters are overburdened by costs. Wages are inadequate for housing costs in many cities. Affordable public housing is scarce, and housing infrastructure is neglected. These issues remain at the core of our Nation's inequality.

Bold Federal action to ensure equal opportunity in home ownership and affordable housing is long overdue. This body can ensure that our housing infrastructure finally reflects the nondiscriminatory and inclusive vision of the Fair Housing Act.

Thank you very much.

Chairman BROWN. Thank you, Mr. Rothstein.

Ms. Rice, welcome.

STATEMENT OF LISA RICE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL FAIR HOUSING ALLIANCE

Ms. RICE. Chairman Brown, Ranking Member Toomey, and other Members of the Senate Committee on Banking, Housing, and Urban Affairs, on behalf of the National Fair Housing Alliance, thank you for inviting me to speak today about the history and current state of housing discrimination. Our mission is to eliminate all forms of housing discrimination and ensure equitable housing opportunities for all. NFHA is also the trade association for over 200 fair housing organizations throughout the United States.

Many of the economic challenges facing our Nation—the racial wealth, income, and home ownership gaps, the racial health disparities that preexisted and are exacerbated by the COVID–19 pandemic, educational and employment gap, and equities in credit access and other disparities—have their origins in discriminatory housing and economic policies implemented from the colonial period through present times.

Throughout U.S. history, people of color have been restricted from owning land or homes. Federal laws and policies as well as private market practices created residential segregation. The dual credit market institutionalized redlining, exclusionary zoning policies, and other structural barriers that block people from opportunities to advance in life. These systemic barriers have never been eliminated. They are still with us. U.S. neighborhoods are more segregated today than they were 100 years ago. Consumers of color are still denied for mortgage loans at twice or more the rate of White borrowers. The Black–White home ownership gap is as wide today as it was when redlining was legal. And without interventions, people of color will never reach economic parity with White residents.

Because of these structural inequities, where a person lives can make all the difference in their lives. Your address impacts everything about you. In fact, your Zip code is a better determinant of your health than your genetic code. Neighborhoods of color are more likely to have poorly resourced schools, fewer amenities like health care facilities, grocery stores, green spaces, and bank branches. But these communities of color are more likely to have hazardous toxic waste plants as well as polluted land, air, and water.

There are over 4 million instances of housing discrimination that occur each year, and, unfortunately, most of these go unreported. But I want to give you a sense of the cases that do come through our doors.

In New York, a young Asian American woman taking her trash out had acid thrown in her face, causing serious injuries.

In Alabama, we are working with our members to assist victims of sexual assault, including a woman who was raped by her landlord and who got no assistance at all from law enforcement when she reported the incident.

In Tennessee, we recently settled a redlining cases in which a local lender failed to serve Black residents in Memphis.

In Maryland, we are currently investigating an appraisal bias case in which an appraiser stated that an affluent Black community in Prince George's County could not sustain a high-income housing development, stymieing a multimillion-dollar project.

NFHA recently filed a major lawsuit against Redfin alleging systemic real estate sales discrimination in Philadelphia, Kansas City, Baltimore, Chicago, Milwaukee, Louisville, Memphis, Long Island, and Essex County, New Jersey.

NFHA and its members are addressing discrimination manifest in algorithmic-based technologies used in the housing and financial services space, including the use of tenant screening, risk-based pricing, credit scoring, digital marketing, and automated underwriting systems.

When thinking about solutions to overcome housing and lending discrimination, we must consider the extensive resources this Nation has invested in creating a deeply inequitable society. Thousands of laws, ordinances, and policies have been passed that either explicitly were race-based, such as the Indian Removal Act, the Chinese Exclusion Act, and Jim Crow laws, or laws that were implemented with racialized policies, such as the Federal Highway Administration Act and the Home Owners Loan Corporation Act.

This Nation has spent hundreds of trillions of dollars implementing unfair policies which created deep-seated racial inequality that we see today. It is, therefore, imperative that the Federal Government now support equitable investments for marginalized groups. Discrimination is crippling this Nation. Research shows that if we eliminated racial inequality, the U.S. GDP would increase by $5 trillion over a 5-year period. So it is in our collective interest to expand opportunities for marginalized groups, and I thank you for allowing me to share with the Committee.

Chairman BROWN. Thank you, Ms. Rice.

Mr. Reece, welcome, and you are recognized for 5 minutes.

STATEMENT OF JASON REECE, ASSISTANT PROFESSOR, CITY AND REGIONAL PLANNING SECTION, KNOWLTON SCHOOL OF ARCHITECTURE, THE OHIO STATE UNIVERSITY

Mr. REECE. Chairman Brown, Ranking Member Toomey, and Members of the Committee, thank you for the opportunity to testify today on the legacy of racial discrimination in housing. I commend you for hosting a hearing on this important topic and elevating the issue of housing equality as a top priority of this Committee. I am an assistant professor of city and regional planning in the Knowlton School at The Ohio State University. My two decades of teaching, research, and scholarship have focused on city planning history, land use policy, and their implications for racial and social equity.

Contemporary housing segregation often correlates with isolation into neighborhoods that lack critical opportunity structures, such as strong schools, healthy environments, and economic resources. Research by the Diversity Data Kids initiative at Brandeis University has found that nearly one in two African-American children and one in three Latinx children are disproportionately isolated into the most unhealthy and underresourced neighborhoods in our Nation's largest metropolitan areas. These disparities are even more pronounced for low-income African-American and Latinx youth.

Segregation in our housing market was not a natural occurrence but enforced by a systemic arrangement of policies and practices throughout the 20th century by both the private and public sector. Local practices such as racial zoning, racially restrictive covenants, exclusionary zoning, and expulsive zoning all played a role in enforcing segregation into the early 20th century city. These existing patterns of segregation created by local practices would be reinforced by redlining practices and housing policies emerging from the New Deal. Redlining of urban neighborhoods would produce decades of disinvestment, while FHA guidelines mandated racial separation in the rapidly growing post-World War suburbs.

Post-war policies such as urban renewal and the Federal Highway Act would further damage redlined urban neighborhoods, causing widespread disruption and displacement. Landmark civil rights legislation, such as the 1968 Fair Housing Act, have helped open housing markets, but segregation persists. For example, the Federal Fair Housing Act has been effective at reducing private discrimination in the market but has been unable to counter ongoing exclusionary land use policies.

The legacy of discrimination has a direct impact on the challenges facing the housing sector, cities, and our society. Research has linked these historic policies to depressed wealth, health, and housing outcomes for marginalized communities today. Three-quarters of the formerly redlined neighborhoods from the 1930s low- to moderate-income today. Historic patterns of redlining have been associated with increased risk for predatory lending and foreclosure during the 2008 housing crisis. Studies have documented the relationship between historic redlining, contemporary social vulnerability, income, and also gun violence. New studies emerging from public health indicate historic redlining can be linked to a number of contemporary health challenges. Redlining has been empirically linked to disparities in preterm birth, cancer, infant mortality, and life expectancy.

Many policy innovations and reforms could proactively counter the legacy of segregation on the housing market. Federal leadership and investment are needed to support communities and local governments who are attempting to grapple with these challenges. Leadership is needed in building capacity, fostering collaboration, fostering local innovation, while assuring protection of civil rights.

Federal leadership could be beneficial in aligning critical infrastructure investments, supporting the implementation of fair housing programs, and fostering regional planning activities. Many of the policy tools needed to counter the legacy of discrimination exist, but need to be brought to scale. For example, recent programs such as the U.S. Department of Housing and Urban Development's housing choice voucher mobility demonstration could be expanded to assist local housing authorities in providing better access to safe and healthy neighborhoods for voucher holders.

In addition to housing mobility, direct investment is needed in formerly redlined communities. Proposed Federal programs, such as the formerly introduced Livable Communities initiative, could be transformative in sparking the synergistic investment in infrastructure and affordable housing needed for neighborhood transformation.

Metropolitan housing markets are most effectively planned for through regional planning strategies. Regional housing approaches can align local government land use regulations and help reform local exclusionary housing policies. Regional planning is critical to build consensus, build capacity, and develop strategy among multiple local governments. Programs such as the Regional Planning Competitive Grant Program from the HUD Sustainable Communities Initiative could be reintroduced to support the capacity for regional planning.

In conclusion, housing is a critical form of infrastructure serving families, neighborhoods, and regions. Stable housing and healthy neighborhood environments are critical to family well-being and child development. Efforts to reduce contemporary discrimination in the housing market and directing investment into historically disinvested neighborhoods provides an investment into the next generation of American society, supporting equity but also improving the Nation's health, wealth, and economic competitiveness.

Thank you for the opportunity to testify today. I look forward to your questions.

Chairman BROWN. Thank you, Mr. Reece.

Mr. Husock, welcome.

STATEMENT OF HOWARD HUSOCK, EXECUTIVE SENIOR FELLOW, PHILANTHROPY ROUNDTABLE, AND ADJUNCT FELLOW, AMERICAN ENTERPRISE INSTITUTE

Mr. HUSOCK. Thank you, Chairman Brown, Ranking Member Toomey, and distinguished Members of the Committee. It is a special honor to testify before the Senator from Ohio, the State where I was born and raised.

That the United States has been marked by an ugly history of race-related housing discrimination is beyond dispute. Private deed restrictions barred African-Americans from buying or renting in neighborhoods of their choice, including such iconic American places as Levittown. Government policies reinforced and encouraged such bias, as with the redlining policies we have discussed. A new direction was set by the landmark Fair Housing Act of 1968 and its key guiding assumption: that race discrimination should not preclude any American household from buying or renting a home it can afford.

We reversed course from what might be called "negative discrimination," but the history of Government efforts to combat the effects of racism on housing policy have also included what can be called "positive discrimination" policies, Government interventions in the marketplace conceived to help racial and ethnic minorities. I will discuss the historical evidence as to how and whether such policies have worked and how they might be modified today.

The first such broad intervention was public housing, initiated as part of the New Deal. What was meant as Government benevolence did not turn out that way. In Detroit, as well as Chicago, St. Louis, Pittsburgh, Cleveland, and elsewhere, historical African-American neighborhoods were bulldozed to make way for explicitly racially segregated public housing. That meant the clearance of hundreds of Black-owned businesses and owner-occupied homes.

In Detroit, the New Bethel AME Church, where Aretha Franklin first sang and her father preached, was torn down. So too was Pittsburgh's Hill neighborhood, immortalized in the plays of August Wilson. These neighborhoods were repositories of African-American wealth, small but growing. Perhaps more importantly, they were also communities in which wealth accumulation was possible.

In contrast, ownership in public housing is a contradiction in terms. That has unfortunately played a role in the tragic lag in wealth descried earlier, and, of course, much of the original public housing stock has rapidly deteriorated and was itself bulldozed—with no compensation for residents.

The well-intended but misguided policy to set public and subsidized housing rents at 30 percent of income today means that as one's income increases, so does one's rent. What a punishment. That has set a trap to hold back tenants, and that disproportionately affects African-American tenants who comprise 47 percent of all public and subsidized households today. Median tenure in New York City public housing, 19.7 years.

Consider, too, the Community Reinvestment Act, passed in 1978 at a time when competition in the financial sector was sharply limited by unwise regulation. Redlining was plausible. In the years since then, however, lending has been revolutionized by technology and competition, including by nonbank lenders. It has become fierce. It is no longer clear that, absent regulation, bank redlining would persist. But there is reason to believe that such positive discrimination as the CRA can harm the prospects of those it sets out to help.

A 2013 National Bureau of Economic Research paper found that loans made in the run-up to CRA exams defaulted by about 15 percent more often than those in other periods. My concern is not for the profits of the big banks but, rather, about the minority homeowners who find themselves living on a block where homes have gone into default and foreclosure.

Consider as well the Affirmatively Furthering Fair Housing Initiative, an understandable response to the fact that too many of our municipalities have adopted draconian zoning laws. But the emphasis of AFFH on using Federal HUD funding as a stick to force the construction of more subsidized rental housing aimed at increasing residential racial diversity precludes the household wealth appreciation gained through property ownership, and it can benefit developers more than low-income housing households.

A University of California at Berkeley study has found that low-income housing tax credit-financed construction in that State costs $480,000 per unit. That is a lot of infrastructure.

In conclusion, there are three policy changes I will leave you with. Let us consider more imaginative approaches to improve public housing than simply spending more. For instance, buying out public housing tenants, financed through the sale of those properties that are on valuable sites. Let us permit fixed-rent leases for public and other subsidized housing tenants so they can accumulate wealth.

Second, include regular loan performance reviews specifically for CRA-qualified lending and make clear to lenders that performance, not just the extension of credit, matters. And let us use HUD to provide models, not mandates, for local communities to reform zoning in ways that will accommodate a wider range of missing middle-income groups without subsidies. These approaches will effectively provide vehicles of opportunity for those of all races, especially minorities who have been harmed by a history of ill-conceived Government assistance policies.

It is an honor to testify in front of you, and I look forward to your questions. Thank you very much.

Chairman BROWN. Thank you, Mr. Husock.

Mr. Peter, welcome. You are recognized for 5 minutes.

Thank you.

STATEMENT OF TOBIAS J. PETER, DIRECTOR OF RESEARCH, HOUSING CENTER, AND RESEARCH FELLOW, AMERICAN ENTERPRISE INSTITUTE

Mr. PETER. Chairman Brown and Ranking Member Toomey, thank you for the opportunity to testify today.

Many of the housing problems we face today as a Nation have occurred not in spite of Federal policies, but because of them. Two policies in particular have been major contributors to the separate and unequal housing legacy we find ourselves in today. Racial discrimination in residential zoning policies espoused by the Federal Government may be traced back to 1921 and foreclosure-prone affordable housing policies back to 1954. These two policies continue to contribute to disparate outcomes and put low-income and minority borrowers needlessly in harm's way and severely limit their opportunities to build generational wealth.

Zoning policies espoused by the Federal Government and widely adopted around the country have constrained the private sector's ability to build adequate housing, thus fueling housing unaffordability.

Starting in 1921, one-unit detached zoning policies became widespread through the actions of the Federal Government. Justified as actions "promoting health, safety, morals, or the general welfare," they were, in fact, thinly veiled efforts to promote racial segregation of residential development.

These policies have created an artificial supply shortage. We estimate without these policies an additional 8 million homes would have and can still be built without subsidy by private enterprise.

This supply shortage has resulted in higher home prices, higher rents, and greater levels of debt in order to become a homeowner.

Worsening affordability has severely affected low-income households, especially Black ones, by severely restricting the opportunity to sustainably purchase a home.

Foreclosure-prone affordable housing policies began in 1954, when Congress authorized FHA to use the 30-year loan. These policies have been primarily targeted at low-income and minority borrowers and have subsidized debt by providing excessive leverage and have not built wealth.

Coupled with the supply shortage, the increased demand from additional leverage has fueled unsustainable lending and higher home prices. This is the paradox of affordable lending: When supply is constrained, credit easing will make entry-level homes less not more affordable.

During the financial crisis, these policies contributed to 8.7 million of foreclosures and other forced dispositions, which were one and a half times higher in lower-income and two times higher in minority neighborhoods than in high-income or more White neighborhoods.

Today the Nation finds itself in the midst of the second home price boom in less than a generation. The national seller's market is now in its 101st month, and levels of supply are at record lows. Home prices are rising in the 10 to 15 percent range compared to a year ago.

Home price appreciation is being propelled by the Fed's low interest rate policies and quantitative easing, the desire for more space as more people work from home, and a wide credit box, particularly at FHA.

Across the States you represent, affordability has worsened, especially for low-income and minority households. You can trace just how bad affordability has become from key housing market indicators for your State that you can find in the appendix.

The COVID–19 pandemic has revealed the same fault lines that were present before the financial crisis, thus maintaining separate and unequal outcomes in the housing market.

Delinquencies are still largely geographically concentrated in low-income and minority neighborhoods, where Federal policies provide widespread access to default-prone leverage.

Most importantly, these Federal policies have impeded the creation of generational wealth for lower-income and minority households and have served to perpetuate the legacy of racial discrimination and socioeconomic stratification in housing. Due to their ongoing impact, there is a growing danger that housing is going to become even more separate and unequal. This is not a viable path forward. While there are, unfortunately, no quick fixes to correct the zoning and affordable housing policies that have over decades helped to create a separate and unequal housing market, the following represent sensible policy solutions.

First, as you are now considering new affordable housing proposals providing hundreds of billions of new funding, you must be wary of Government programs that promise an easy fix. Many poorly designed housing assistance programs have had many unintended consequences which have helped to make housing separate and unequal.

Second, a sounder approach for the Federal Government's involvement in single-family financing would be to focus on wealth building, not debt. Specifically, shorter loan terms would sustainably build generational wealth for low-income and minority households through home ownership. To make these loans attractive, Government assurance could be narrowly targeted to lower-income first-generation homebuyers so that they can build wealth.

Third, State and local governments can greatly expand supply by unleashing the private sector by restoring property owners' rights taken away by Federal policies dating back to the 1920s.

Fourth, identify and prosecute bad actors that propagate racial discrimination using sound data analysis by the AEI Housing Center while allowing others to defend themselves using the same approach. This test requires no new data collection, and we stand ready to help HUD or the CFPB to implement it.

And, finally, fifth, provide and support economically sound opportunities for income and wealth growth for lower-income people.

Thank you very much.

Chairman BROWN. Thank you so much, Mr. Peter.

Let me begin the questions with Ms. Rice. Infrastructure investments in the past, Ms. Rice, like FHA and construction of the Federal highway system created jobs and helped drive economic growth. They only benefited some communities, however. They explicitly, as we know, excluded or directly harmed lower-wealth communities and communities of color.

Ms. Rice, how do we ensure that new investments in infrastructure help promote broad-based economic growth while addressing economic and racial inequalities and inequities both?

Ms. RICE. Thank you for the question, Senator Brown. The first thing that we have to do is first understand that infrastructure is housing. When you think of all of the infrastructure bills that the Nation has passed in the past, those infrastructure bills had a grave impact on people's ability to sustain their housing. It disrupted home ownership opportunities for many communities of color, and it created—it actually helped create residential segregation. So we have to keep that in mind when we are implementing this particular infrastructure bill, and one of the things that we are pushing for at the National Fair Housing Alliance is to sort of cloak the entire infrastructure bill, if you will, in a patina of equity. So we're arguing that the Affirmatively Furthering Fair Housing mandate should be applied to the entire infrastructure bill so that we are implementing all of these programs and investments in a very equitable fashion.

The other thing is the infrastructure bill has to include both supply side and demand side provisions. So you cannot just buildup housing opportunities without ensuring that people are going to be able to adequately access them. And if we negate the reality, if we excuse the reality that families of color are not in the same position because of historical and current discriminatory practices to access affordable housing options, then we are going to be exacerbating inequality, much like the CARES Act that was implemented at the beginning of the COVID pandemic has worked to exacerbate inequality because it was not implemented through an understanding of the inequalities that currently exist in our Nation.

So if we do not want to repeat that kind of exacerbation of inequality in our Nation, we have to make sure that the infrastructure bill is taking into consideration that we have a very uneven landscape and not everyone has access to opportunity. So we need to pay attention to both the supply side and the demand side issues.

Chairman BROWN. Thank you, Ms. Rice.

Dr. Reece, you have helped communities engage in comprehensive planning efforts involving housing and transportation. Who needs to be at the table? If you would briefly tell us, who needs to be at the table to make sure that these plans work for the neighborhoods? Your sound is not on. We still cannot hear you.

Let me come back to you. Apparently that is on our end. It is on his end? OK. It is on his end. Sorry about that, Dr. Reece.

Let me move to Mr. Rothstein. You wrote an entire history, as we have cited on the Government's role in creating and perpetuating segregation in our housing markets and the Federal Government's obligation to provide redress. For those who might be skeptical, explain why the Government has an obligation to remedy the harmful discrimination that it perpetuated. And we cannot hear you either. Is there a problem, Mr. Rothstein? Now we can hear you, Mr. Rothstein.

Mr. ROTHSTEIN. I forgot to unmute myself. Sorry.

In the first place, we have a constitutional obligation to do it, no matter how difficult it is, because as we have discussed, the policies that created segregation were heavily dominated by Federal, State, and local government policies, a violation of the Constitution, and we have an obligation as Americans, difficult though it may be to remedy that, not just to let it take care of itself. That is the first reason.

The second reason is so much is being made of unintended consequences. Of course, there are unintended consequences of everything we do, and we have to be careful to avoid them. But that cannot be a reason to paralyze us from doing anything.

One of the things we should do is impose a disparate impact standard on everything that we do under this infrastructure bill so that we make sure that the policies that we enact do not have a disparate impact on African-Americans and on other minorities in an unintended way.

For example, just a few years ago, the present Governor of Maryland took office and canceled a light-rail project that was going to bring African-Americans in a low-income neighborhood of Baltimore, give them access to good jobs, to good shopping opportunities, residential opportunities, and redirected that money to highways that would help speed the travel of commuters from suburban areas into the center of the city. That had a disparate impact on African-Americans, that policy choice. It was not intended as a racially explicit policy, but we need to impose a disparate impact standard on it and on all the policies that we enact.

I think that we should legislate the disparate impact standard into the Fair Housing Act because leaving it to rulemaking, we have seen over the last decade, is subject to politicization and to repeal and not be effective.

So we have to implement policies that we are obligated to do under the Constitution. We cannot use the fact that there may be occasional unintended consequences as an excuse to do nothing. The Federal Government was very powerful in implementing segregation. The fact that it was so powerful in doing it suggests that if it is intended in the right way, it can be equally powerful in desegregating.

Chairman BROWN. Thank you, Mr. Rothstein.

Professor Reece, we will come back to you later since my time has expired, and if we cannot get back to you later, we will talk directly about your answer.

Senator Toomey is recognized.

Senator TOOMEY. Thank you, Mr. Chairman.

Let me start with Mr. Husock. Actually, several people have observed that African-American home ownership rates have not improved since, I do not know, the late 1960s or thereabouts. So we have had 50 years of programs, and you went through some of the failings we have had with the public housing system and how that has failed and how rent regulations have failed, and the CRA has certainly at least become obsolete—oh, and literally, truly trillions of taxpayer dollars spent to subsidize housing in various ways over recent decades, and yet zero progress on a very important metric like home ownership rates.

Is this pretty damning evidence that these programs have not worked, in your view, Mr. Husock?

Mr. HUSOCK. It is really suggestive, certainly, Senator Toomey, and I think we have to not look for the big quick fix. We have to accept the idea that the best progress is sustainable progress, and that can be incremental. Here is what I am talking about. The FHA, still today a very powerful force in the American Government, requires a 3-percent downpayment. Well, low downpayments seem like you are doing a favor to the homeowner, but they actually may, as you said in your opening remarks, qualify people for homes they cannot afford. Foreclosure and delinquency rates in FHA-financed homes remain extremely high today compared to those in the private market, the straight private market. That is not something that we should accept. It is a worry. And that resounds through the CRA and other efforts to shoehorn people into home ownership. Let us make sure home ownership is sustainable, and that way it will improve in the long term.

Senator TOOMEY. There is no question we see a correlation between home ownership and favorable socioeconomic outcomes. But does that mean that there is a causal direction, starts with home ownership, and if we put people in homes they cannot afford, we are going to still get the favorable socioeconomic outcomes that we would like to see?

Mr. HUSOCK. No, I actually compare it to the discussion about moving to a better Zip code. We have to make the right life decisions in order to move up in the world. That is a fact of American life. And one of the big life decisions we make is to save money for a downpayment for a home so that we do not have a large overhanging principal, so that when home values go down, as they inevitably do, as you pointed out in your opening remarks, we are not caught in the down draft. So the good life decisions that allow people to accumulate wealth, whether by moving to a higher-value neighborhood or just having the downpayment to move where they can buy, those are what we need to encourage.

Senator TOOMEY. I want to develop that, but I just want to close out on this. Spending a whole lot more money on the programs that have given us zero progress does not sound like a great recipe to me.

Mr. Peter, you made a point that is very related to what Mr. Husock just said, which is the idea to focus on wealth building instead of debt building. Isn't it true that a lot of well-intended programs have really been designed to encourage people to take on more debt than they can afford, which has ended very badly for those very people that were meant to benefit? If we had programs designed to help people encourage the accumulation of savings and wealth, wouldn't they be a lot better off?

Mr. PETER. Thank you, Senator, for the question. And, yes, basically since 1954, Federal affordable housing policies have been to subsidize debt by providing excessive leverage, and my colleague Howard Husock just mentioned a couple examples. At FHA we have—today the median debt-to-income ratio is 45 percent. FHA goes as high as 57 percent. At FHA many of the loans get risks laid on top of each other with risky features. So there certainly—this has been the policy since 1954, and the outcomes do not show for it. A much better, a much sounder approach would be to add to wealth building, and the way to do that is because—the way to achieve that is to focus on shorter loan terms, do not get absorbed into—do not end up driving home prices higher and higher, but they end up providing sustainable wealth building, which is what we want.

Senator TOOMEY. And then I have got very little time left, but, Mr. Husock, I wonder if you could elaborate a little bit on an interesting idea that you alluded to, which is the idea of maybe selling off public housing that is on very valuable land and using the proceeds from that sale to do a lot more to help the folks who would be displaced than keeping them there.

Mr. HUSOCK. Yeah, in New York City there are housing developments on some of the most—I mean billion-dollar lots on the Brooklyn waterfront and lower Manhattan. They used to be worth billions before the pandemic. We think they will come back. And they will, in fact. And rather than giving people a housing voucher and saying try to use it somewhere, let us pay them for exactly the kind of wealth accumulation they missed out on for 40 years—10 percent of New York City public housing tenants have lived there for 40 years or more, not accumulating wealth. Let us buy them out with the proceeds from these extremely valuable real estate sites and let them go use that where they would.

Senator TOOMEY. Thanks very much.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Toomey.

Senator Reed from Rhode Island is recognized for 5 minutes.

Senator REED. Thank you very much, Mr. Chairman.

Let me direct a question to Ms. Rice and Professor Reece, and it is a very basic one. When it comes to addressing housing discrimination, would the private sector on its own produce the most efficient and fairest outcome in your estimate?

Ms. RICE. Sure, I am happy to go first, and thank you, Senator Reed, for the question. The answer is no, unfortunately, and we have seen this throughout history. There is this sort of argument that we have been hearing that Government should sort of stay out of the way because the private market can handle things on their own. I would like to lift up two examples of why that is not the case.

First, the argument essentially says that it was all right for the Federal Government to invest trillions of dollars implementing policies that were equitable for and supported White communities in a very racialized manner. That was just fine. Supporting White families to make it into the middle class was just the thing to do, but investing dollars in equitable policies to support communities of color is somehow wrong.

I think it is a very racist construct to argue that the policies and programs that benefited White residents would not, in fact, benefit people of color and should continue to be disclosed for them. The argument, I think, Senator Reed, ignores that the White community is where it is now on the economic ladder because our Government supported—from the colonial period to today supported their ability to secure land, housing, and businesses. The argument suggests that supporting communities of color in this way is somehow wrong, and I think that is clearly separate and unequal.

The second example I would like to lift up is the importance of the Government's role in supporting antidiscrimination action. The first Fair Housing Act was actually passed during Reconstruction in 1866. That law was almost never used, Senator Reed, and that law was never used because people feared violence and retribution if they were to exact this civil rights protection. But when the Fair Housing Act was passed in 1968, bringing with it the full weight of the Department of Justice and the Department of HUD, we saw thousands of victims of discrimination come forward because they had the support and backing of the Federal Government. So policies implemented in a way to advance justice and fairness are necessary.

Senator REED. Well, thank you very much.

Dr. Reece, do you have a comment?

Mr. REECE. Yes, I wanted to come back to Senator Brown's question about moving forward in terms of the benefits of comprehensive planning to address these issues. I wanted to state that the planning profession still has its place in regards to aligning our infrastructure in an efficient way, avoiding land use conflict, and building the capacity and the consensus needed to guide the development of cities moving forward with the macroeconomic changes that we know are coming.

We have learned from the painful history of the past in terms of these past practices that we have talked about, and our profession has evolved considerably since then, placing great emphasis on engaging marginalized communities and centering their voices in the context of how we plan for the future. This is why I believe planning still has a very profound role in terms of thinking about how we guide our infrastructure investments forward, as well as how we address these ongoing housing challenges facing many communities of color.

Thank you.

Senator REED. Well, thank you very much, and my time is dwindling down to a few seconds. So, Chairman, I will yield back to you. Thank you.

Chairman BROWN. Thank you, Senator Reed.

Senator Scott from South Carolina, who may or may not be on? If not, Senator Rounds of South Dakota, you are recognized for 5 minutes.

Senator ROUNDS. Thank you, Mr. Chairman.

Ms. Rice, I would like to begin with a question for you. One of the areas where housing needs are most acute are on tribal lands in South Dakota and across the country. Native American reservations have a housing stock that has suffered a severe underinvestment that stretches over decades.

Now, one of the reasons for that is because we have what we call "tribal trust land" in which the Government holds in trust the land which belongs to the Native Americans. But when it comes time to build a home, showing that you actually have ownership or the ability to own the land and, thus, the location where the home is becomes rather challenging, and there are limited numbers of financial institutions that have expertise in working through that particular issue. But this is an item that has literally been there for decades.

Where do you think Congress should start when it comes to improving housing conditions for Native Americans? And I am going to ask you a follow-up when we are done, but just to start things off, can you give me your thoughts about—these are rural areas, so they are different from a lot of the rest of the country, but to me this is critical for a population that really does have a very high level of poverty.

Ms. RICE. Senator Rounds, thank you for that question, and it is a very important one. As you noted, there are a handful of lending institutions that have mastered the process for providing mortgage credit on tribal lands, and, unfortunately, we have not had a regulatory framework in which our financial regulators have used the carrots that they have in order to incentivize lenders to do more in this space. So there are a couple of things that we are actually championing.

One is the use of a program called "special purpose credit programs." This is a program that has been on the books for decades. It is a construct of the Equal Credit Opportunity Act, but it has really never been used. It is similar to Affirmatively Furthering Fair Housing, right? We have never had implementation of the Affirmatively Furthering Fair Housing provision of the Fair Housing Act, and so we have not realized the benefits that the law really holds. It is the same thing with the Equal Credit Opportunity Act. Because we have not hand really usage of the special purpose credit program provision, we have not seen the full scale of its benefits.

So we are really encouraging the Department of Housing and Urban Development to work jointly with the CFPB and the prudential regulators to issue more guidance to give lenders a higher degree of confidence to create and implement special purpose credit programs which can be designed specifically for serving Native American populations.

Senator ROUNDS. I would like to follow up a little bit on that because I would like to know whether or not you think there are items specifically with regard to the HUD Section 184 loan guarantee program that might be improved upon for this in particular, because that is really a Native-focused housing program. Are you familiar with it? And are there some things that we could do specifically with that particular program?

Ms. RICE. Senator Rounds, unfortunately I am not very familiar with that particular program, but I do know that special purpose credit programs can be used with any Federal mortgage programs, so they can be used with VA, they can be VA loans, USDA loans, FHA loans. And I am sure that they can be used for this loan product that you just mentioned. Again, there is severe underutilization of the special purpose credit program, but it is specifically designed—it was put in place to meet the special credit needs of marginalized and underserved communities, and Native American populations are ripe for that opportunity.

Senator ROUNDS. Thank you for that, and I noticed that you mentioned the VA program. I have to recall that in either 2016 or 2017 the Minneapolis-based office, which is responsible for several States for VA loans on Native American reservations, the Minneapolis office was given an award for having the highest number of VA-awarded mortgages in the Nation. They had five. Now, think about that in terms of the failure of our country to provide those types of loans to Native American veterans. And so I do think that there are some things that we can work on in that, but I thank you very much for your thoughts with regard to that.

Mr. Chairman, I think I have got a little bit of time left.

Chairman BROWN. You really do not, but go ahead anyway.

[Laughter.]

Senator ROUNDS. Well, then let me just say this: Thank you for doing this particular item, and I think that this is an area that we can find some bipartisan agreement on with regard to improving housing programs that were well intended but that may very well need just kind of a review to make sure that they are actually doing what they were supposed to do in the first place.

Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Rounds. And as a member of the Veterans' Affairs Committee, I will be in touch with you and your office on the issue you just talked about with Native American veterans, so we would love to work with that on housing.

Senator Menendez from New Jersey is recognized for 5 minutes.

Senator MENENDEZ. Thank you, Mr. Chairman.

You know, Black and Latino households are more likely than White households to live in poorer and disadvantaged neighborhoods. As Congress considers an infrastructure package, we have an opportunity, I believe, to help address racial disparities in access to affordable housing and economic opportunity by targeting aid to low-income communities. And I believe the best way to do that is with a package that spurs development and investment in underserved communities by coordinating housing and transit development so our communities can improve economic resiliency.

Dr. Reece, would an infrastructure package that provides specific investments to low-income communities help address some of the racial disparities present in affordable housing and economic opportunity?

Mr. REECE. Thank you for the question, Senator. Absolutely. We know that the alignment of transportation infrastructure and housing is critical primarily in the context of allowing greater workforce mobility. But in addition to that, it helps us think proactively in terms of understanding that with these transportation investments we may see particularly in our urban neighborhoods, property value are going to go up, and we can potentially stabilize housing to make sure that those neighborhoods stay affordable and accessible.

I am here in central Ohio where our regional planning agency right now is trying to think about how to prioritize higher-density transportation development along our arterial corridors and also preserve affordable housing. A program like this would be actually transformational in moving ideas like this off of the books in terms of planning and into implementation.

Senator MENENDEZ. Well, thank you. So it would be fair to say that you think including coordinating fair housing and transit development, that expands housing opportunities and transit access to good-paying jobs as part of an infrastructure package would help these racial disparities?

Mr. REECE. Absolutely.

Senator MENENDEZ. And that is exactly what my Livable Communities Act does, which would authorize new programs at HUD to promote smart development and regional planning for transportation and affordable housing, especially to better integrate affordable housing availability and access to transit and access to job opportunities. So I look forward to hopefully working with the Chairman on that. Thank you.

Let me ask you, Ms. Rice, home ownership we know is one of the most effective ways for low- and middle-income families to build intergenerational wealth. The Federal Reserve tells us that the median homeowner has about 40 times the household wealth of a renter. The Census Bureau data tells us that, as of the fourth quarter of 2020, only 44 percent of Black families and 49 percent of Hispanic families owned their homes compared to 74 percent of White families.

So, Ms. Rice, Federal data shows that the median White family has eight times the wealth of the median Black families. Does the home ownership gap contribute to this wealth gap?

Ms. RICE. Yes, Senator Menendez, absolutely it does. In fact, the home ownership gap is the major driver of wealth inequality in the United States, and so that is why it is imperative that we adopt programs that help expand home ownership opportunities for people of color. And I do want to make a point here, because in the lead-up to the Great Recession and the foreclosure debacle, the kinds of loans that we saw that were hyper-targeted for communities of color were toxic mortgages that were not designed to be sustainable, and that is critically important. In fact, over 50 percent of African-Americans and 50 percent of Latino Americans got loans in the subprime market. They got these really horribly crafted subprime loans in order to purchase their housing.

The point I want to make is that that has always been the case in the United States. There has never been a time in the United States when the primary mainstream financial market has been the primary provider of credit to communities of color because of this legacy of discrimination and these systemic inequalities that we have been talking about, the dual credit market and so forth and so on. It is important to keep that in mind.

Senator MENENDEZ. Yes, and we certainly want responsible borrowing, but we also want the ability to create that responsible borrowing to take place at the end of the day. We see that the wealth gap is not static. It widens over time.

One final question to Mr. Rothstein and Ms. Rice. You know, if owning your home is part of wealth building, but also if homes are properly appraised and valued, a Brookings Institution report from 2018 shows that home values in majority Black neighborhoods are 55 percent lower than homes in less than 1 percent Black neighborhoods. So how does this systemic undervaluation happen? And what are the consequences to African-American households?

Mr. ROTHSTEIN. Well, thank you, Senator. Let me begin by saying that the—shall I go on?

Senator MENENDEZ. Yes, please.

Chairman BROWN. Yes, please proceed.

Mr. ROTHSTEIN. Thank you. First, let me say that home ownership is a critically important thing to maximize. People who own their own homes have more pride in their communities. They take better care of their neighborhoods. They are more invested in their local schools. So nobody should minimize the importance of increasing ownership that is presently denied to African-American families.

But we should also be careful not to overexaggerate the effect that home ownership has on wealth creation. Historically, African-Americans who have owned their homes have gained less wealth from them than Whites who have owned their own homes because African-American neighborhoods appreciate in value less than White neighborhoods do. An important—it is certainly true—and I said this in my comments earlier. The wealth gap that we have today is largely created by discriminatory Federal home ownership policies. But that is not the only thing that sustains it. We should not forget that if we want to increase wealth of African-American families and other minority families, we should enable them to save from decent incomes. Income policy is critically a contributor to home ownership—to wealth, rather, is as important a contributor to wealth creation as housing policies are. And we should not silo our attention to the housing and income policies when we are talking about wealth creation. We can narrow the wealth gap if we give families enough income to save from, the way White families do as well.

So far as the appraisal issue goes, you are absolutely right. This is one of the things that a disparate impact well-enforced rule could address. But many people confuse appraisal and assessment, and one of the critical problems that we now face—and I am sure you have seen all the attention given to it in just the last few weeks as a result of a very important report that was issued by a political scientist at the University of Chicago, Christopher Berry, showing that systematically across this country African-Americans, because of discriminatory, in effect, assessment policies pay far more in property taxes than Whites with homes of similar value. The causes of this are obvious, for one thing, because as I said, African-American neighborhoods appreciate less rapidly than White neighborhoods in value. If you do not do a regular assessment—and many, many communities do not do it; they delay their assessments—over time White homes' market values are going to be much higher than their assessed values while Black home market values are not going to be so much higher. The result is that African-Americans pay much, much higher property taxes to support schools and fire departments and other public services than Whites pay. These are not racially explicit policies. They are policies that across the country—the Berry report documents 1,800 counties and cities in which African-American neighborhoods, low-income neighborhoods, pay higher property taxes relative to market value than White property taxes. Unless we begin to impose a disparate impact standard on the assessment practices that are imposed across the country, we are not going to solve this problem. And when African-Americans pay higher property taxes than they should, that depletes their wealth as well, because they are dipping into their savings to pay property taxes that are unaffordable. It causes then sometimes their homes to be foreclosed. Cities and counties condemn their homes and resell them to speculators for only the defaulted property taxes.

This is a critical problem nationwide that is depressing the wealth of African-Americans, and it should be addressed.

Senator MENENDEZ. Thank you, Mr. Chairman.

Chairman BROWN. Thank you, Senator Menendez.

Senator Scott from South Carolina is recognized for 5 minutes.

Senator SCOTT. Thank you, Chairman Brown, for my 10 minutes. I appreciate that very much, noting that Senator Menendez used so much time. I appreciate the new standard, and I will take advantage of that. Thank you so much, Chairman, for allowing that and Senator Menendez for setting the standard. That was tongue-in-cheek, of course.

One of the things I would say, as I said prematurely earlier, is that Republicans and Democrats both agreed that we should find a way to make the American dream more attainable and more achievable for the average person in this Nation, no matter the color of their skin. That is something that we should all celebrate, and, frankly, we should all believe. I am not completely convinced that others believe that as much as I do, but it certainly is the case that we want Americans to achieve the American dream, and nothing speaks of the American dream, in my opinion, more than home ownership. As a kid who grew up really in apartments and in family members' homes, the thought of having my mother own her own home and have a garage attached to her home that she is able to drive into and to be safe as she gets out of the car as opposed to just having an apartment complex where she has to be very, very careful when she is getting out of the car after a 16-hour shift or an 8-hour shift that ends at 11 p.m., it is part of the reason why this issue is so incredibly important to me personally and why I, like so many other Americans, millions of Americans, dreamt of home ownership as a way of not really creating equity in America but simply having a safer, healthier environment for my mother to come home to. And as we have this conversation, I hope we do not overlook the fact that we are all striving to accomplish something that is sustainable.

Senator Menendez said it well, that we have to have responsible decisions made around home ownership, and I think we can actually increase the number of people eligible for home ownership in a responsible manner by including within the scoring models that we use for creditworthiness those folks who are paying rent on time. In so many of the models looked at by the GSEs, they do not consider things that are simple. Thankfully, we have passed legislation, my legislation, the Credit Score Competition Act, that allows for these credit agencies to look at whether you are paying your utilities on time, whether you are paying your phone bill on time, whether or not you are paying your rent on time. Those are three strong indicators that we should use to increase the number of people in this Nation, and specifically minorities in this Nation, who are already creditworthy. But we are not using the information. That is wrong. We should change the model so that those who are creditworthy have a chance to be a homeowner. It is that simple.

I would ask Mr. Peter and Ms. Rice, am I missing something on that specific point? And knowing Chairman Brown will not give me 7 more minutes, I would ask you to have short answers so I can get to my next question.

Ms. RICE. You are absolutely right, Senator Scott. That is one of the reasons why the National Fair Housing Alliance started our Tech Equity Initiative, to de-bias all of the technologies that are used in the housing and financial services space. Thirty-plus years ago—and I am telling my age—when I was a loan underwriter, the two most critical pieces of information that I looked at to determine whether or not a consumer was creditworthy and could pay their mortgage obligation was: What is your current housing payment, how well do you pay your rent? And what is your housing payment shock? And if those two things were on point, my job was 80 percent done. As you know, Senator Scott, we do not consider those two key factors today in the underwriting process, as you just said. The reason is there is no infrastructure to collect that information, and we need to build that, and the GSEs could go a long way to doing that.

Senator SCOTT. Thank you.

Mr. Peter, can you give me a quick answer to that question so I can get to my last one?

Mr. PETER. Yes, thank you, Senator. So, fundamentally, the problem in the housing market today is that we have a supply shortage, and this supply shortage in combination with Federal housing policies which tend to stimulate demand only ends up with prices higher and higher. Currently we have 10 to 15 percent home price appreciation. This has been going on for a year. If this goes on for another year or 2 more years, it is going to be pricing many, many——

Senator SCOTT. Mr. Peter, let me ask you a more specific question. If we use more variables in understanding someone's creditworthiness, would we see an increase in access to the American dream called home ownership?

Mr. PETER. Senator, we can expand the base. However, if we do not have more houses available——

Senator SCOTT. That is a different conversation. So the answer to the question is yes or no?

Mr. PETER. Sure. Yes.

Senator SCOTT. OK. So there is no question, if you live in Charleston, South Carolina, there is no doubt about it. We have more buyers in the market than we have sellers. We have a real problem with capacity, and I understand that. The point of my question was whether or not, if we started looking at the entire financial picture of a borrower, would more borrowers be creditworthy than the ones that do exclude their rent, their electric bill? And I believe that answer is pretty clear. And knowing that my time is up, I am going to, until Chairman Brown cuts me off, make a statement as opposed to asking another question, because my thought is that Senator Menendez made a really good point, which is that you look at the average net worth of the household that owns a home, it is about 255; one that rents is about 6,300. We should certainly bridge that gap. That should be part of what we do as members of the Senate and Congress, is to look at ways for us to close the chasm in the most responsible way.

I oftentimes walk into hearings and asking myself, based on the title of the hearing, am I in the same place as my friends on the other side? And sometimes the answer is yes, and sometimes the answer is no.

I would suggest that we focus on the problem, and even if we come to solutions from different pathways, that we do not demonize folks who disagree with your approach to solving a problem. I actually think that making the borrower who is already creditworthy a focus of my attention actually increase home ownership in the minority community faster than other ways. I think if we can address the assessment issues, which are more a county issue than it is a national issue, on the county level, having been a chairman of the county council, understanding the 5-year rotations for assessments, certainly if your property values increase faster in your more affluent communities but you do not have assessments but every 5 years, that is like common sense.

The challenge is that it is not specifically aimed at any race of people. That is something that we should pass down to the States and to the local level. We should spend our time in this area focusing our attention as much as possible on those issues that we should control—not that we can control but that we should control from the Federal level.

Thank you so much for the extra 2 minutes and 12 seconds. I know that it hurts your heart, but it warmed mine, Senator. Thank you, Chairman Brown.

Chairman BROWN. Thank you, Senator Scott.

Senator Warner from Virginia is recognized for 5 minutes.

Senator WARNER. Well, thank you, Mr. Chairman. I appreciate Senator Menendez and Senator Scott on the new 8-minute Brown rule. I promise I will not try to take the whole 8 or 9 minutes.

Let me actually echo what Senator Scott just said. I agree with him and was proud to cosponsor his legislation on trying to have a smarter, more reflective credit scoring process. But I do think we need to appreciate the fact that home ownership is one of the biggest indicators of wealth in this country, and we all have cited many times the roughly 10:1 ratio of White families over Black families and a lot of that due to the home ownership rate differential. And, remember, all those rate differentials were based on prepandemic data. So my fear is the numbers are even worse right now.

Echoing what Senator Scott said, looking at this, you know, what will help minorities, what will help all first-generation homebuyers, I have been working on a proposal, Chairman Brown, that I hope to solicit bipartisan support for that would say taking advantage of these record-low interest rates with a slight one-time Federal subsidy on bringing down the interest rate, can we create a 20-year mortgage product that would be available to first-generation homeowners, and disproportionately that will hit people of color. I am not sure anyone—my kids—should take advantage of that if I can help co-sign a note, oftentimes first-generation homeowners do not have that ability, they do not have someone who has accumulated wealth. But a 20-year mortgage note, that would, in the way we have been able to do the pricing, end up with a similar pricing to what a 30-year mortgage would be, that would accomplish two goals. One, it would not drive up the house prices that Mr. Peter and others have talked about, if we could deal with that affordability issue. It would allow individuals literally, the compounding effect, if you got a 20-year mortgage, you are accumulating wealth in that mortgage at twice the rate as you would with a 30-year mortgage. Five years in, you have got twice as much equity in a 20-year note than if you had a 30-year note.

Ms. Rice, I will start with you, and then I will go to Mr. Peter. If we have this kind of product out there and we recognize the wealth differential, a lot due to home ownership, wouldn't this be one way in a fair approach offering this to only first-generation homebuyers where we might be able to tackle this problem?

Ms. RICE. Thank you, Senator Warner. It is a very great question. Yes, in fact, the National Fair Housing Alliance has been working in tandem with the Center for Responsible Lending and the Urban Institute to conduct research that has landed us squarely on the point that you just raised. Our research shows that by focusing resources to first-generation homebuyers, we will be hitting more of the underserved groups that we are trying to help and who have been disproportionately impacted by our legacy of unfair and inequitable practices. And, yes, I do think that your 20-year mortgage product is a great product to add into the ecosystem. We need as many products and programs as we can, quite frankly, that are implemented via an equity lend, not in a discriminatory fashion but via an equity lend. And so I encourage—and I am sure you are already doing this—to ensure that there is a cloak of the Affirmatively Furthering Fair Housing mandate in the implementation of that program to make sure that it is being distributed through the right channels so that it can reach those underserved consumers, recognizing that communities of color disproportionately are unbanked or underbanked. This is not an income issue. This has nothing to do with income. It is sheerly a virtue—it is a construct of the fact that we are a highly segregated society based on race and opportunity. The opportunities are equally segregated, so we have got to make sure that people can actually have access to these programs.

Senator WARNER. And I agree with you, Ms. Rice, and one of the reasons why I am working with Chairman Brown and my colleagues in our December bill, I was proud to get $12 billion to go into community development financial institutions, CDFIs, who have a history and a focus on the underbanked community.

Mr. Peter, I am going to go to you in my last—this will be the last comment I will make, and I think after you are done, it will go to Senator Van Hollen. But I think one of the things we are trying to structure here is focusing on equity accumulation, not on simply subsidizing interest rates so that we do not end up having the effect of pushing up home prices. Let me grant you your premise of your earlier comment. We do need more housing stock supply. But, Mr. Peter, could you go ahead and comment at least on this notion of increasing our investment in trying to accumulate equity rather than pushing up home prices in a 20-year mortgage, and how you might deal with that.

Mr. PETER. Thank you, Senator Warner. Yes, I fully support your proposal of just a 20-year term, and in general, I support any solution that focuses on wealth building. And the beauty of the 20-year loan term is that, as you said, it does not get subsidized and does not lead to higher home prices. And, also the research that we have done, it shows, once we looked at foreclosures after the great financial crisis, we found that after accounting for risk factors, we found that loans of 15- and 20-year loan term had half the default rate of a 30-year term. So this would actually help—a 20-year loan term would actually help tamp down foreclosure risk, and it would build wealth. As you said, after 5 years you have built up twice as much equity. After 20 years you own your home outright, so you have actually money available to pay for your kids' education, you have money to save for retirement, and also you are paying—with a 20-year term, you are paying yourself in effect instead of paying interest to the bank. So the interest savings that you accumulate over the term of the loan also could potentially be used for additional wealth building.

However, I would also add that in the housing market there are plenty of other policies out there such as the competition between Fannie, Freddie, and FHA that oftentimes ends in a race to the bottom of lending standards, in general the risk level of FHA, so I think we need to be careful that we kind of balance both approaches of wealth building, but not at the same time doing too much to promote demand while we have a supply shortage.

Senator WARNER [presiding]. I agree with you, and I know we will go to Senator Van Hollen. We do need to work on the GSEs and others to make sure that if we are able to get this 20-year product, we could also get an after-market securitization market. And I think Chairman Brown is gone, and I think I was supposed to call on Senator Van Hollen on his instruction next.

Senator VAN HOLLEN. Thank you, Senator Warner, and I thank all of you for your testimony.

Mr. Rothstein, in your book "The Color of Law", you point out that after decades of explicit segregationist policies, the so-called race-neutral policies can still continue the discriminatory impacts and effects. You mentioned that transportation falls into that category, and you mentioned it earlier this morning, but as you know, in Baltimore, Baltimore City residents spend significant time and planning to establish a Red Line, a Metro east–west line; $900 million was going to be made available by the Federal Government. Unfortunately, Maryland's Governor pulled the plug on it.

Can you comment on the Red Line as an example of how we could have helped remedy some of this historic segregation?

Mr. ROTHSTEIN. I mentioned earlier this topic that you specifically addressed, the Red Line, the cancellation of that line that would have enabled African-Americans to access better jobs and better retail opportunities and better housing. And it was canceled in order to shift money to highways that would speed the commute of suburbanites into the city.

I said earlier that this should be deemed a violation of the Fair Housing Act because it has a disparate impact on African-Americans, and I would say also, in response to Senator Scott's comment before, that the exploitation of African-Americans by lagged assessment systems is not simply a county problem. That is also a violation of the Fair Housing Act and should be deemed so.

So I agree with you that the biggest problem we face is not race-explicit policies today. They are policies that are superficially race-neutral, but have a disparate impact on African-Americans in particular and other minorities. They reinforce segregation.

Let me just mention one other that has been—it seems to me everybody on this panel and every Senator who has spoken have agreed that the zoning laws that we have in this country exclude African-Americans in effect, not explicitly racially but in effect for many opportunities for housing, and they constrict the housing supply. When Ben Carson was appointed Secretary of Housing and Urban Development by President Trump, the first thing he said he was going to do was withhold Federal funds from communities that maintained exclusionary zoning laws. There was a lot of verbal laudatory statements about abolishing exclusionary zoning, but the people who support it somehow lose faith in it, and we never heard from that again.

So I think if you are looking for a bipartisan approach to housing, one of the first things that you could address is zoning laws that have a disparate impact, race-neutral zoning laws that have a disparate impact on African-Americans and other minorities. Opening up housing supply that that would do would not solve the problems of segregation, but it is a necessary first step if we are going to address those problems.

Senator VAN HOLLEN. Well, I appreciate that, and I think, you know, in President Biden's American Jobs Plan, he does discuss these issues both in terms of zoning but also in terms of remedying the transportation policies, which as you say in many cases were race-neutral on the surface, but had these impacts, and we are feeling them in Baltimore. You know, my dear friend, former Congressman Elijah Cummings, the Red Line was one of his goals, and it was a real tragedy to see the plug pulled on that. We are going to look to see if we can somehow remedy that.

Speaking of the Biden administration, I was pleased to see that today the Secretary of HUD announced that they are going to reinstate the Obama administration fair housing policy. That is an important step.

On the issue of housing, Dr. Reece, you mentioned in your written testimony the Housing Mobility Demonstration Project. I am sure you are familiar with the Thompson v. HUD case in Baltimore City that demonstrated deliberate policies over years in Baltimore for housing segregation. Baltimore City was one of the worst in the country. That case resulted in a consent decree that includes a mobility program, housing mobility program. Senator Young of Indiana and I have introduced a proposal to add 500,000 new mobility vouchers, and President Biden includes something in his plan, too.

Can you comment on why these mobility vouchers can be important?

Mr. REECE. Yes, thank you, Senator. And I actually with my time at the Kirwan Institute worked on the design of the remedy in Thompson v. HUD. And as you have seen in Thompson v. HUD, families are prospering and thriving from being in healthier environments.

This builds upon this extensive body of literature, most recently the work of Raj Chetty, that shows just the profound economic benefits, particularly for kids, if we can get them into healthy homes and healthy neighborhoods. I would argue that right now mobility programs are underfunded generally in comparison to other housing programs, so I think anything to provide additional mobility vouchers would be beneficial from not only just a fair housing perspective, but also from a child development perspective and economic development perspective, because we know the long-term benefits of these programs are quite profound.

Senator VAN HOLLEN. Well, thank you. I see that my time is up. I had some additional questions for others, but I will now turn it over to Senator Cortez Masto.

Chairman BROWN [presiding]. Yes.

Senator CORTEZ MASTO. Thank you, everyone. This is such an important conversation, as you can see, everybody participating. I think we can all agree we have concerns about the discrimination that we see, particularly in mortgage lending as well as interest in housing discrimination.

So let me just jump right into it because I was listening to you, Mr. Rothstein, and you were talking about zoning laws that exclude African-Americans and engage in disparate treatment. Whether they intend to or not, it is happening. What other tools do local and regional governments have to proactively prevent housing discrimination? Before we get to the Federal laws and enforcement of that, what locally do local governments have to really lean into this to also address housing discrimination besides addressing the zoning laws, Mr. Rothstein, if you have any other ideas?

Mr. ROTHSTEIN. Well, you know, we keep on talking about things—the Federal policy, but they are also in the purview of local government. There are municipalities across this country that do have their own downpayment assistance programs, recognizing that they also are responsible for the segregation that Government created. So it is not simply the Federal Government that can do this.

Another important issue not of local but of State Government is enforcement of the Fair Housing Act's basic nondiscrimination proposals—provisions that continue to be violated. I am sure you are aware of the explosive survey that *Newsday* did, *Long Island Newsday* 2 years ago of continued steering by real estate agents of African-Americans who can afford to buy homes in healthier neighborhoods and who were steered away from this. Well, we are ignoring and have been ignoring for many years the important role of State Government in licensing real estate agents. This is not a problem that simply is the responsibility of the real estate agency itself to fix. Those real estate agencies that are steering Whites to White neighborhoods and African-Americans to Black neighborhoods—and it continues to exist as that Newsday expos? shows—are violating their States' nondiscrimination policies that can be enforced by the State licensing agencies, and that would be an important local policy that I think should be followed. So those are just two of them.

Senator CORTEZ MASTO. Well, thank you, and I appreciate that. And let me just highlight because I know there was a recent report from the National Association of Realtors who found that Black households are more than twice as likely as White ones to be rejected for mortgage loans. So I know the realtors are really trying to address this as well, and I appreciate your comments.

Ms. Rice, anything else to add to that, particularly when it comes to looking at identifying and flagging repeat offenders of housing discrimination across the country? Is there more that can be done at the local and State level?

Ms. RICE. Yes, thank you for the question, Senator Cortez Masto. There is quite a bit that local and regional governments can do. One of the first things they can do is fully enforce the Affirmatively Furthering mandate, the Affirmatively Furthering provision of the Fair Housing Act, which, as you know, has to be implemented on a voluntary basis. There is no private right of action with that particular provision of the law.

In my home State of Ohio, a great example of this in Zanesville, the city of Zanesville for over 50 years denied water service to a predominantly African-American neighborhood called "Coal Run" even though the residents of Coal Run paid their taxes and paid additional assessments to get water lines extended to their homes.

After 50 years, they still were having to catch water to take back and to cook and to do other things in huge tin cisterns in their backyards.

Senator Cortez Masto, the city extended water lines up to the neighborhood of Coal Run, around Coal Run, and then back out Coal Run to purposefully not give these residents water. That is a violation of the AFFH provision, and the city could have absolutely voluntarily complied and provided these consumers water access.

That same thing is happening in hundreds of communities throughout the United States of America today. We still have the problem and challenge of local communities not only not implementing the AFFH provision, but local communities like the city of Cleveland could adopt their own local community reinvestment ordinances in order to say, look, we are going to invest in banks that invest in all of our communities and serve all of our communities.

And I just wanted to add on to one point that Richard made, and that is that State licensing, real estate licensing divisions can require their real estate professionals to get fair housing training, and they can oversee their housing training to make sure that it is of high quality. That is not being done in most States in America, and if we did that, that would go a long way toward expanding fair housing.

Senator CORTEZ MASTO. Thank you. And so I have legislation, the Housing Fairness Act of 2021, that would reaffirm HUD's commitment to fair housing enforcement by increasing funding for fair housing programs, making improvements to the Fair Housing Initiatives Program, reinstating the Affirmatively Furthering Fair Housing rule, and providing additional funds for research into housing discrimination. I want to thank my colleagues Senators Van Hollen and Menendez for cosponsoring it. And I know, Ms. Rice, thank you to the National Fair Housing Alliance for endorsing this. I think it is so important that we continue to provide and support independent groups of folks that are out there that are actually looking to address this problem. We need to bring it to the attention of our local and State Governments, holding them accountable, but making sure we are doing right by homeowners as well. So thank you for that.

I know my time is almost up. I do not know—oh, I do. So I am going to pass it off—oh, is Senator Brown back?

Chairman BROWN. I am. Thank you, Senator Cortez Masto.

Senator Smith is recognized for 5 minutes.

Senator SMITH. Thank you, Chair Brown, and I noticed that our colleagues were just skipping right over your formal role of handing the ball from one of us to the other of us. But I am——

Chairman BROWN. I have been in the Finance Committee for a while. Thank you.

Senator SMITH. That is fine. I really appreciate this Committee and all of the testifiers today. I want to just start by thanking my colleague Senator Rounds for bringing up the issues around Native housing. Senator Rounds is the Ranking Member of the Housing Subcommittee that I chair, and I am looking forward to working on those issues with him there and also issues of rural housing and discrimination in rural housing, which is such an important issue.

I really also appreciate the conversation today about the Federal legacy of housing discrimination and what we can do to turn that legacy around.

Today, though, what I would like to focus in on is the ways in which local governments' policies have had discriminatory impacts and what tools we have to address that and to encourage zoning reform at the local level.

So many zoning laws, as we know, at the local level were created to racially segregate neighborhoods, even after the civil rights laws outlawed overt housing discrimination. In fact, these zoning policies restrict high-density housing options, were often intended to limit racial and economic diversity in certain neighborhoods, and were aimed at maintaining or even raising housing values in areas that were mostly where White families lived in single-family homes.

Now, in Minneapolis, this is one of our worst legacies. We have some of the worst housing disparities of any place in the country, and in an effort to flip that around, in 2019 Minneapolis adopted the 2040 plan, which is a long-term planning document that includes support for local zoning reform, and they developed housing priorities specifically with the goal of expanding access to affordable housing and quality housing everywhere in the city where the city is actually quite segregated to this day.

The plan, for example, would reduce minimum parking requirements for new housing production. It would legalize triplexes citywide, and it would allow for bigger residential buildings to be built along transit corridors. And one of the goals was, of course, to increase housing supply, but also another specific goal was to reduce racial disparities.

So I would like to ask, if I could, Ms. Rice and Mr. Reece, if you could comment on this, if you could comment on whether you think the 2040 plan is going in the right direction, what the impact is of local zoning requirements and reforms like this, and what the Federal Government can do to encourage zoning reforms like this to move us toward a more anti-racist policy. Ms. Rice, why don't you go first?

Ms. RICE. Sure. I was going to let my colleague Jason go first.

Senator SMITH. Either one.

Ms. RICE. Thank you so much, Senator Smith, for that question. We absolutely think the 2040 plan is the kind of plan that local jurisdictions need to be undertaking in recognizing the role that local governments have played in fostering segregation. Many of the exclusionary and restrictive zoning ordinances that were put in place during the 1940s, 1950s, and 1960s and 1970s were put in—in fact, even up until today, were put in place to restrict the ability of people of color to move into those neighborhoods. In fact, the first time that the disparate impact doctrine was used under the Fair Housing Act by the Nixon administration was to address an exclusionary zoning ordinance that the city of Blackjack had put in place in order to keep out residents of color.

So this is a longstanding tool that has been used to create segregation, and these zoning ordinances, as I mentioned in my statement, are still in place today, and they are still serving their purpose of driving racial inequality.

One of the reasons why we are still seeing the disparities that we are seeing when it comes to racial disparities is because so many of these systems are still in place and they are still serving their function.

The Federal Government can help create incentives for jurisdictions to eliminate exclusionary zoning ordinances by essentially applies, as I said before, the Affirmatively Furthering Fair Housing mandate to all of the areas to which it should be applied. AFFH should be applied not just to housing but also to community development, and if we do that, we will see much broader voluntary compliance with the AFFH provision.

Senator SMITH. Thank you.

Mr. Reece, I just have—I am actually a little over time, but I would love to hear your comment briefly, please.

Mr. REECE. Yes, thank you, Senator. What the Twin Cities is doing now the whole country is looking at because it does potentially set a model going forward about how we can reform zoning laws, particularly laws that limit anything other than single-family housing. My one word of advice, looking at the scholarship around this, is that density alone will not produce affordability unless we are attentive to making sure that other kind of inclusionary housing tools are in place, things like community land trusts, support for home ownership, for first-gen homeowners, and also then the alignment of other kind of subsidized housing within these spaces as we up the density within these places.

I do think there is also a role for, in addition to what Ms. Rice referenced in terms of AFFH, incentivizing and thinking of ways to get local communities to collaborate together to reform these laws. Regions are going to be more economically sustainable if these land use regulations are aligned across regions, and the problem is, you know, it takes resources, it takes time, planning, to build the relationships, to get the consensus and the buy-in to do that. I referenced the Sustainable Communities Initiative. I think that is a great example of how you can run a competitive grant program that encourages this kind of multijurisdictional collaboration to take down these exclusionary barriers that we know are so detrimental and so deeply intertwined with our racial equity issues today.

Thank you, Senator.

Senator SMITH. Thank you so much.

Thank you, Chairman Brown.

Chairman BROWN. Thank you, Senator Smith.

Senator Ossoff from Georgia is recognized for 5 minutes.

Senator OSSOFF. Thank you, Mr. Chairman. I appreciate the opportunity. Thanks to our panel.

Last year, in meetings in communities across Georgia, even in the midst of the COVID–19 pandemic, in fact, in many cases because the COVID–19 pandemic exacerbated the financial distress in which so many families found themselves, and because the impacts of the pandemic were disproportionate along class and race lines, affordable housing is one of the most consistently raised issues in community meetings. And I would like to just offer you, Ms. Rice, and you, Mr. Reece, each the chance to offer for this Committee, as we consider how to build legislation that will be a comprehensive infrastructure and jobs plan over the next couple of months, what do each of you please believe are the one or two most important considerations or policy objectives which may currently be neglected in the prevailing discourse around this bill as we craft it as it relates to affordable housing and equity, race and class equity, and access to affordable housing? I would like to begin with you, Ms. Rice, please?

Ms. RICE. Senator Ossoff, thank you so much for the question. So I have a litany of things, but I will only mention two.

One is to make sure that we are addressing both supply and demand side issues in the infrastructure bill. It is critically important, and one of the things I do want to lift up is that in every State in America, we already have an existing sort of cadre of naturally occurring affordable housing, but much of it is not in pristine condition. And so we need laws like the Neighborhood Homes Investment Act which we are championing to be enfolded into the infrastructure bill to help buildup the infrastructure of naturally occurring and already existing affordable housing across the country. But we have to address those supply side issues, but we also have to address the demand side as well, because if we do not, we will just be further exacerbating inequality. We have to make sure that marginalized communities are able to access these new affordable housing opportunities that will be coming online via the infrastructure bill.

The second one is we have to make sure that we are paying attention to the already existing inequitable landscape on top of which this infrastructure bill will be unfolded. We did not pay attention to that with the implementation of the CARES Act, and that is why the CARES Act ended up exacerbating inequality and the wealth divide. So we have to take that into consideration to make sure that we are building equal access to these opportunities in the infrastructure bill.

Senator OSSOFF. Thank you so much, Ms. Rice.

Dr. Reece.

Mr. REECE. Thank you, Senator. I would completely agree with Ms. Rice's comments. Going back to an earlier discussion today, I do think the proposals like the Livable Communities Initiative could be very profound in assuring that alignment in transportation infrastructure and housing infrastructure. In addition to that, I think as we think about housing, we have to understand and realize the importance of the social side of housing. Expanding HUD's self-sufficiency program even further I think would be a beneficial step in helping prepare families to potentially even step out of the existing affordable units into home ownership into the future, as well as to prepare financially to economic shocks that could come in the future, just like we have dealt with with the COVID pandemic.

I was evaluating a housing mobility program just recently where coaching and social support were critical to help families avoid losing their housing, even though most of them lost their employment due to the recession following the pandemic. So these types of programs, even though they are not often seen as important as, say, big transportation projects, they are critical to the sustainability of families within these housing units and to their development and ability to access home ownership later.

Senator OSSOFF. Thank you, Dr. Reece and Ms. Rice. With the little time I have left, I think you touched upon the importance of the quality of the affordable housing stock. I was recently meeting with community leaders in Albany, Georgia, and for homeowners without discretionary income, there is unrepaired damage from natural disasters that is a decade old. How would you propose Congress ensure that communities like Albany can invest in retrofitting and upgrading damaged housing stocks? Because the quality of a family's housing has a huge impact on quality of life, state of mind, opportunity.

Ms. RICE. Sure. The Neighborhood Home Investment Act, Senator Ossoff, is specifically designed to address that issue, where we have people who are living in housing that is not in pristine condition, but they need a little bit of gap because, as we know, sometimes you need more work done into the home than what the market value of the housing can bear. And so the Neighborhood Home Investment Act is specifically designed to provide that gap, to sort of bridge the gap so that consumers can get the sufficient funds that they need in order to upgrade their housing.

Senator OSSOFF. Thank you, Ms. Rice. Thanks to the panel.

Mr. Chairman, I yield back.

Chairman BROWN. Thank you, Senator Ossoff.

Senators Tester, Warren, Sinema, Warnock, Shelby, Crapo, Tillis, Kennedy, Hagerty, I guess none of them are here. So, Senator Toomey, any closing remarks that you would like to make? If not, I can just close.

OK. Thank you all—oh, Senator Warnock is here. Senator Warnock, you are recognized for 5 minutes.

Senator WARNOCK. Sorry about that. Thank you so much, and thank you—can you hear me?

Chairman BROWN. Yes.

Senator WARNOCK. Thank you, Mr. Chairman, for holding such an important hearing. And, sadly, there has been a long documented history of racial discrimination within our housing system, particularly among Black and Brown brothers and sisters. And there are also many reports of studies and surveys that have documented the fact of these discriminatory practices, how they have contributed to the growing racial wealth gap in our country. There is a reason why the geography of our country literally looks the way it does.

One often overlooked driver of racial wealth inequality with our housing system is how lenders and the appraisal market assess the value of Black and Brown homeowners compared to White homeowners. We know this to be the case. In fact, a 2018 Brookings Institution study found that homes in neighborhoods where the share of the population is 50 percent Black are valued at roughly half the price as homes in neighborhoods with no Black residents. The report also stated that homes of similar quality in neighborhoods with similar amenities are worth 23 percent less in majority Black neighborhoods compared to those with very few or no Black residents. And across all majority Black neighborhoods, owner-occupied homes are undervalued by $48,000 per home on average, amounting to $156 billion in cumulative losses.

Ms. Rice, could you expand on how racial disparities within the home appraisal market exacerbates the wealth gap in our country? And, Dr. Reece and Mr. Rothstein, would you like to add on to that response? That is fine.

Ms. RICE. Sure. Senator Warnock, thank you so much for the question. This is a critically important issue, and we are seeing many, many anecdotal stories about appraisal bias appearing in the newspaper. There is the story of the couple in San Francisco who purchased their home for roughly $900,000, put $400,000 of investment in it, only to have it appraised at $50,000 higher, right? And then they had a White friend come and essentially move into the home. They eliminated all of the traces of a Black family being the actual owner, and when the second appraisal was done, it was appraised at $500,000 higher.

Well, we are hearing stories like that throughout the United States, and, in fact, I mentioned in my statement that we are currently investigating a case of appraisal bias in Maryland, in Prince George's County, Maryland, in a predominantly African-American community where the appraiser is refusing to give the appropriate valuation to a multimillion-dollar development—these are multimillion-dollar homes in this development—because the appraiser said there is no way any house in Prince George's County in this particular area would be valued at this high of a price point.

I have worked on appraisal cases throughout my entire fair housing history. I have seen many, many instances of appraisal bias, and it is an unfortunate problem of the systemic issues that we have in this Nation, but also these are signs of individual discrimination that we are seeing perpetuated as well. And so we have to enforce the Fair Housing Act. We have to make sure that their housing organizations are sufficiently funded so that they can investigate these cases. And we also have to make sure that HUD is sufficiently funded that it is restaffed, because the Fair Housing Division at HUD has been gutted. So we have to make sure that we are building back the Office of Fair Housing and Opportunity and also that DOJ has the resources that they need to investigate these cases.

Senator WARNOCK. Thank you so much, and I read the article about the family you mentioned in San Francisco, in California. This is a real impact on people's actual lives and the wealth gap. It is an important issue for me. I have been there, and I know the experiences of millions of Black and Brown families in this country, which is why I, along with Senator Klobuchar and Representative Cleaver, sent a letter to Federal banking regulators and housing agencies as well as the appraisal subcommittee urging them to do all they can to address the valuation disparities.

It looks like I am out of time, but thank you so very much for your hard work on this issue.

Chairman BROWN. Thank you, Senator Warnock.

Senator Toomey, any closing remarks? If not, I will close. As Mr. Rothstein noted, we heard a lot of agreement today that exclusionary zoning and land use policies are part of the problem of housing segregation and high housing costs today. We heard similar testimony across the panel at our March hearing on housing needs. President Biden has also called, as we know, for policies to address this issue as part of the American Jobs Act. I look forward to working with my colleagues to work on this issue as part of the housing investments that we have all discussed today.

Thank you to our witnesses for being here today. Thank you for the really incisive testimony from all five of you.

And for housekeeping, for Senators who wish to submit questions for the record, those questions are due 1 week from today, Tuesday, April 20th. To this, you have 45 days, if you would, to respond to these questions.

Thank you again. With that, the hearing is adjourned. Thank you all so much.

[Whereupon, at 12:06 p.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]

PREPARED STATEMENT OF CHAIRMAN SHERROD BROWN

On Sunday, we marked the 53rd anniversary of the passage of the Fair Housing Act.

53 years ago, jarred by the assassination of the Reverend Dr. Martin Luther King, our country finally made it illegal to refuse to sell a home or rent an apartment to someone based on the color of their skin.

This was an historic moment and a hard-fought victory for civil rights activists. And it was not so long ago when you look at the long arc of history.

Black Americans had endured centuries—that's generation after generation after generation—of slavery, only to be locked into second-class citizenship by the Black Codes and Jim Crow laws that made it nearly impossible to get a good-paying job, keep a reliable bank account, and—as we all know—even to vote.

As my friend Joyce Beatty said recently, we cannot change our history. But we can learn from it, and we can build a far better future—one that brings us closer to making our founding ideals real for everyone.

Fair housing took longer to pass through Congress than voting rights, desegregation of public spaces, and even equal opportunities for employment.

As important as these advancements were, they did not come in time to help communities of color benefit from the historic investments we made in American families and communities in the last century.

Beginning with the New Deal and continuing through the 1960s, we tried a new, grand experiment in this country—we invested in workers and in the infrastructure they needed to succeed. And in the process, we built the largest, broadest middle class the world has ever seen.

But that deal remains unfinished—too many were purposefully left out.

We created the Federal Housing Administration to make the dream of home ownership, and the wealth that comes with it, available to millions more families.

But FHA limited its loans to neighborhoods that were deemed "good" investments—neighborhoods with White, nonimmigrant residents. Neighborhoods with Black and immigrant residents and near industrial sites were "redlined" and called "hazardous."

From 1934 to 1968, FHA helped finance more than $120 billion worth of loans—and 98 percent went to White borrowers.

We put Americans to work building the interstate highway system, the infrastructure that would unleash new levels of American prosperity.

But Federal highways cut through Black and minority neighborhoods, severing tight-knit communities and destroying homes and small businesses, replacing them with traffic and pollution.

Following these decades of exclusion and destruction, the Fair Housing Act offered enormous promise. It didn't just ban racial discrimination—it also required that new Federal funds be used in ways that would affirmatively further fair housing.

In other words, we recognized it wasn't possible to start from scratch. Our housing system had our history woven into it, and we would need to take active steps to include Black Americans, and all those who been left out.

George Romney, the father of our colleague, became HUD Secretary the year after the Fair Housing Act was passed. He set out to fulfill that mission—to require communities to use their Federal grants to build better housing and take active steps to include everyone, as required by the law.

But he didn't get very far. President Nixon and his Southern Strategy blocked Secretary Romney's implementation of the Fair Housing Act—and it stayed that way for decades.

Housing discrimination was illegal beginning in 1968, but communities of color lived in the cities we'd already built and then abandoned, and lived with the wealth inequality we'd already grown.

Minority communities continued to lose out on investment.

FHA no longer used redlining maps, but communities of color still saw banks take their deposits, and still refused to make them mortgage loans.

Congress passed the Community Reinvestment Act, requiring banks to serve the communities whose money they relied on to make profits. But the same neighborhoods—the ones that had red lines drawn around them a few decades earlier—never got the same investment that others did.

And nearly three decades later, lenders seemed to finally discover the minority communities they'd been neglecting for decades. But that discovery didn't lead to positive investment to help communities build wealth and grow new businesses.

Instead, predatory lenders wiped out the hard-won gains Black and Brown families had made in the years since 1968. They targeted people in lower-income and minority communities for predatory subprime loans and refinances.

In 2003, President Bush's HUD Secretary, Mel Martinez, told this Committee that predatory lending posed, quote, "a significant danger to minority and women homeowners targeted for equity-stripping loans," and that some loans had "abusive terms and conditions" that may violate the Fair Housing Act.

And of course, we all know what happened. We remember the foreclosures that swept through neighborhoods in waves. We remember the signs that went up on home after home.

Black and Latino homeowners were 70 percent more likely to face foreclosure.

Today, Black, Latino, and Asian families are far less likely to own a home than White families. The Black home ownership rate is as low as it was 53 years ago, when housing discrimination was still legal.

The wounds of redlining remain as fresh as ever.

We know where you live determines so much about your life—what school your kids go to, the kinds of jobs available, how far you have to travel to get to work, the air you breathe, the water you drink, even how long you live.

Residents in those neighborhoods that were systematically excluded from investment—many of them people of color—have lower life expectancies and are more likely to have preexisting conditions.

Take a walk around Cleveland, where you can still see the scars of the foreclosure crisis in the same neighborhoods that were colored in red in the maps of the 1930s.

Come to my zip code, 44105, where we had the most foreclosures in the country in the first half of 2007.

And in these same neighborhoods, you'll find higher rates of lead exposure, toxic pollution, and infant mortality. Take a look at maps of COVID–19 deaths—they match up with those redlining maps pretty well.

Our past is still determining people's lives today. That's why this hearing, and the work of this Committee, matters.

We can't change our history—but that cannot mean we throw up our hands and tell millions of Americans, "sorry, this is the best we can do."

We know it's not.

Remember all those infrastructure investments we made in the 1930s, and in the years after World War II? Remember how we created millions of new homeowners and grew the middle class?

There is no reason we can't do the same thing again—but this time, we bring everyone along.

On this Committee, we have an opportunity to address the legacy of housing discrimination. And we have an obligation, under the law that this body passed 53 years ago, in the wake of Dr. King's assassination.

I look forward to hearing from today's witnesses about how we can begin to do that.

PREPARED STATEMENT OF SENATOR PATRICK J. TOOMEY

Mr. Chairman, thank you.

Let me say from the outset that racial discrimination in housing is a real and sad part of our Nation's history. We can't ignore that—it's a fact. It's also a fact that Government policies contributed to this discrimination. Some Federal Government policies were designed to increase segregation.

We all know the Federal Housing Administration—the FHA—engaged in redlining practices. For decades, FHA insurance was often limited to newer developments outside of inner city neighborhoods, exacerbating segregation. We also know Davis–Bacon wage requirements were designed to protect White union labor and prevent Blacks from competing for federally funded construction jobs. Even today, Davis–Bacon continues to impede lower-income and minority workers from opportunities and to drive up the construction costs for Government-assisted housing.

Some State and local government policies have also exacerbated segregation. Some zoning practices—such as prohibitions on multifamily housing and minimum lots sizes—can have legitimate purposes for many communities. However, they sometimes do great harm by pricing low-income and minority families out of neighborhoods, and reducing the support of affordable housing for such families. These zoning practices and other regulatory barriers to housing development are particularly prevalent in Democrat States and cities. For example, California cities have long restricted multifamily construction, driving up housing costs and reducing affordability.

In my view, this history shows us that when it comes to housing in America, including housing discrimination, Government has been the problem, not the solution. Unfortunately, the Biden administration does not seem to have learned this lesson.

Its multitrillion dollar welfare plan, with a bit of infrastructure sprinkled in, seems designed to repeat many of the mistakes of the New Deal and Great Society. After Congress has just finished spending more than $80 billion for housing in response to COVID—on top of the $50 billion we annually spend on HUD programs alone, not to mention the billions we spend on other housing programs and then tens of billions more we forgo in tax revenues to subsidize—the Biden administration is now calling for $213 billion in new spending for housing in this so-called "infrastructure" plan.

Amazingly, the Administration wants Congress to spend $40 billion to restore public housing projects—places where people don't want to live. Housing projects are notorious concentrations of poverty, crime, and other social ills. Research shows that moving families out of housing projects and integrating them in communities decreases violent crime. But rather than focusing on sensible alternatives, the Biden administration wants to keep families in housing projects. More public housing will only commit more Americans to a substandard living arrangement and increase Government dependency.

We also shouldn't rush to put families in homes they can't afford. Relaxing underwriting requirements or expanding downpayment assistance programs for low-income families, especially in an overheated housing market is a recipe of disaster. If home values drop, these borrowers run the real risk of losing their homes and any wealth they thought they had accumulated. We have seen this happen before, most recently during the 2008 housing crisis when Government monetary and housing policy created a housing bubble, the bursting of which caused the financial crisis and great recession.

The Administration's infrastructure plan also calls for $20 billion in tax credits for building and rehabilitating homes and making them more energy efficient. These tax credits will predominantly benefit developers and investors largely because they are not targeted to low-income families. In fact, homes built with tax credits can be sold to purchasers with incomes up to 140 percent of area median income.

The Administration's plan also prioritizes using union labor to upgrade homes. This unfairly excludes lower-income, nonunionized laborers and increases construction costs that will be passed onto homeowners.

Today, we'll hear from two witnesses who'll discuss how Government intervention, even when well-meaning, has contributed to inequality. Howard Husock is a housing researcher and scholar. As Mr. Husock will note, many "race-conscious" policies haven't actually increased home ownership opportunities or wealth in underserved communities. Public housing has deprived many minority communities of the opportunity to build wealth. The Community Reinvestment Act is out of date and poorly designed to encourage lending in minority neighborhoods without tracking whether investments help or hurt families. And overly prescriptive Affirmatively Furthering Fair Housing requirements that put only a handful of low-income families in subsidized rental homes in affluent areas does little to support minority families or help them build wealth through home ownership.

We'll also hear from Tobias Peter, an expert in housing finance. He notes that policies aggressively encouraging minorities to buy homes—especially during a boom when houses are more expensive—expose borrowers to greater default risk during dips in the market. He argues that risky lending harms low-income and minority borrowers who purchase homes when home prices are inflated. And he believes that local governments need to remove zoning restrictions and other regulatory barriers to housing that artificially constrain the supply of housing and drive costs up.

It's important to remember that the legacy of discrimination is a direct result of Government supported policies. As we consider how to address the housing challenges we face, we must not repeat the mistakes of the past. Now is not the time to double down on failed efforts. That means we should not keep American families in dilapidated and segregated housing projects; we should not let bureaucrats in Washington make local housing decisions that undermine communities; and we should not inappropriately push families to purchase homes they can't afford in the long run.

The lesson we need to learn and apply is: When it comes to housing in America, Government is the problem, not the solution.

PREPARED STATEMENT OF RICHARD ROTHSTEIN

SENIOR FELLOW, EMERITUS, NAACP LEGAL DEFENSE AND EDUCATIONAL FUND, INC.

APRIL 13, 2021

Good morning Chairman Brown, Ranking Member Toomey, and members of the Committee. Thank you for the opportunity to testify this morning. My name is Richard Rothstein, and I am a Distinguished Fellow of the Economic Policy Institute and a Senior Fellow, Emeritus, of the NAACP Legal Defense and Educational Fund, Inc. I am here this morning on behalf of myself and of Sherrilyn Ifill, the president and director-counsel of the NAACP Legal Defense and Educational Fund, Inc.

The NAACP Legal Defense & Educational Fund, Inc. ("LDF") was founded in 1940 by Thurgood Marshall and is the nation's first and foremost civil rights law organization.[1] LDF was launched at a time when the nation's aspirations for equality and due process of law were stifled by widespread state-sponsored racial inequality. Through litigation, advocacy, and public education, LDF seeks structural changes to expand democracy, eliminate disparities, achieve racial justice, and fulfill the promise of equality for all Americans. Since its inception, LDF has worked to combat racial segregation and promote racial integration and opportunity through housing. LDF played a seminal role in successfully challenging practices that reinforced residential segregation, including the landmark Supreme Court case *Shelley v. Kramer*,[2] in which the Supreme Court held that state courts could not enforce racially restrictive covenants in housing deeds. With the 1968 passage of the Fair Housing Act, Congress recognized residential segregation as a critical problem that threatened to undermine America's movement toward racial equality. Sadly, residential racial segregation persists and has, indeed, increased in some

[1] LDF has been an entirely separate organization from the NAACP since 1957.
[2] 334 U.S. 1 (1948).

cities and counties across the country.[3] The consequences of entrenched racial segregation are devastating for communities and families[4] and for our country. LDF has continued challenging housing, transportation and other policies that reinforce residential segregation, including as co-counsel in *Thompson v. HUD*,[5] the case successfully challenging segregated public housing practices in Baltimore, Maryland, and in numerous amicus briefs[6] filed in Supreme Court cases raising claims under the Fair Housing Act.

Through purposeful policy decisions, the federal government created a system in which housing and homeownership became critical to the economic stability and upward mobility of families. But those same policies also routinely excluded Black Americans. Indeed, through both *de jure* and *de facto* policies, Black Americans were excluded from accessing the very benefits and opportunities that propelled white Americans into the middle class.

Federal government policies have been central to creation and perpetuation of this disparity. In fact, although discriminatory practices of state and local governments, the real estate industry, private mortgage lenders, and private property owners played a critical role in perpetuating racial segregation in housing, the entrenched segregated landscape of this

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[3] Jenny Schuetz, *Metro areas are still racially segregated*, Brookings Institution (Dec. 8, 2017), https://www.brookings.edu/blog/the-avenue/2017/12/08/metro-areas-are-still-racially-segregated/; John R. Logan and Brian J. Stults, *The Persistence of Segregation in the Metropolis: New Findings from the 2010* Census, Brown University (2011), https://s4.ad.brown.edu/Projects/Diversity/Data/Report/report2.pdf.

[4] Huiping Li, Harrison Campbell & Steven Fernandez, *Residential Segregation, Spacial Mismatch and Economic Growth across US Metropolitan Areas*, Urban Studies 50, no. 13, (Oct. 2013), http://journals.sagepub.com/doi/abs/10.1177/0042098013477697; Richard Rothstein, *The Racial Achievement Gap, Segregated Schools, and Segregated Neighborhoods- A Constitutional Insult*, Economic Policy Institute (Nov. 12, 2014), http://www.epi.org/publication/the-racial-achievement-gap-segregated-schools-and-segregated-neighborhoods-aconstitutional-insult/.

[5] 348 F. Supp. 2d 398 (D. Md. 2005).

[6] NAACP Legal Defense and Eduational Fund, Inc., Brief in Support of Respondents, Texas Dept. of Housing and Community Affairs v. Inclusive Communities Project, Inc 576 U.S. 519 (2015), https://www.naacpldf.org/wp-content/uploads/Texas-v-ICP-LDF-Brief-in-Support-of-Respondents-13-1371.pdf

country was most powerfully created, supported, and sustained by the actions of the federal government through most of the 20th century.

Policies such as redlining, mandated racially restrictive covenants, segregation in federal public housing, and other racially discriminatory housing policies prevented African Americans from buying homes outside of proscribed areas.[7] While the Fair Housing Act of 1968 sought to prohibit discriminatory policies going forward, the government undertook no serious assessment or policy of restitution to address the decades of past harm, exclusion and discrimination caused by federal policies and practices.

As a result, America's contemporary housing, real estate, and environmental landscape has been layered atop an infrastructure created by decades of racially discriminatory housing practices and policies. Because, as a nation, we have never truly reckoned with or attempted to dismantle the structure created by past discriminatory housing policies, segregation has been literally grandfathered into the developing American landscape decade after decade. It is time for a change.

The federal government's obligation to compel compliance, enforce anti-discrimination laws and provide reparation for the harms perpetrated under discriminatory laws has long been neglected, and redress is long overdue. The failure of the federal government to properly remedy these injustices has compounded into a situation of multiple crises: homeownership is

[7] Richard Rothstein, *The Color of Law: A Forgotten History of How Our Government Segregated America*, (New York, NY: Liveright Publishing Corporation 2017); Lisa Rice, *Long Before Redlining: Racial Disparities in Homeownership Need Intentional Policies*, Shelterforce, (Feb. 15, 2019), https://shelterforce.org/2019/02/15/long-before-redlining-racial-disparities-in-homeownership-need-intentional-policies/; Douglas S. Massey & Nancy A. Denton, *American Apartheid: Segregation and the Making of the Underclass* (Cambridge, MA: Harvard University Press, 1998); Ira Katznelson, *When Affirmative Action Was White: An Untold History of Racial Inequality in Twentieth-Century America* (New York: W. W. Norton & Company, 2005); Robert C. Lieberman, *Shifting the Color Line: Race and the American Welfare State* (Cambridge, MA: Harvard University Press, 1998).

out of the reach of many Americans, renters are overburdened by costs,[8] the current minimum wage is inadequate to pay housing costs in most major cities,[9] affordable public housing is scarce[10] and housing infrastructure is neglected.[11] It is past time for the government to take bold action to ensure that equal opportunity applies to homeownership and affordable housing. Housing issues remain at the core of our nation's structural inequality.[12] LDF is profoundly aware of the need for strengthened enforcement of the nation's fair housing laws in the continued struggle against racial segregation but this body also has a responsibility and an opportunity, to ensure that our housing infrastructure is updated to reflect the fair, non-discriminatory and inclusive vision contemplated by the Fair Housing Act of 1968.

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[8] Whitney Airgood-Obrycki, Alexander Hermann & Sophia Wedeen *The Rent Eats First: Rental Housing Affordabaility in the U.S.*, Joint Center For Housing Studies, Harvard University (Jan. 2021), https://www.jchs.harvard.edu/sites/default/files/research/files/harvard_jchs_rent_eats_first_airgood-obrycki_hermann_wedeen_2021.pdf; *American Families Face a Growing Rent Burden*, Pew Charitable Trusts (April 2018), https://www.pewtrusts.org/-/media/assets/2018/04/rent-burden_report_v2.pdf;

[9] Alicia Adamczyk, *Minimum wage workers cannot afford rent in any U.S. state*, CNBC (Jul. 15, 2020), https://www.cnbc.com/2020/07/14/minimum-wage-workers-cannot-afford-rent-in-any-us-state.html; *Out of Reach 2020: How Much do you Need to Earn to Afford a Modest Apartment in Your State?*, National Low Income Housing Coalition (last visited April 8, 2021), https://reports.nlihc.org/oor.

[10] Susan J. Popkin, *The Current State of Public Housing*, Testimony before the House Financial Services Committee (Feb. 5, 2020), https://www.urban.org/sites/default/files/publication/101678/The%2520Current%2520State%2520of%2520Public%2520Housing_12.pdf; Corianne Payton Scally et. al., *The Case for More, Not Less: Shortfalls in Federal Housing Assistance and Gaps in Evidence for Proposed Policy Changes*, Urban Institute (Jan. 4, 2018), https://www.urban.org/research/publication/case-more-not-less-shortfalls-federal-housing-assistance-and-gaps-evidence-proposed-policy-changes/view/full_report.

[11] Pam Fessler, *Why Affordable Housing Could Become Harder To Find*, National Public Radio, (Jan. 9, 2018) https://www.npr.org/2018/01/09/576535681/advocates-fear-tax-bill-will-worsen-u-s-affordable-housing-shortage; Alan Greenblatt, *The Importance (and Neglect) of America's 'Middle Neighborhoods'*, Governing (June 2018), https://www.governing.com/archive/gov-middle-neighborhoods-government.html.

[12] Tanvi Misra, *Why America's Racial Wealth Gap Is Really a Homeownership Gap*, Bloomberg CityLab (March 12, 2015), https://www.bloomberg.com/news/articles/2015-03-12/a-new-report-finds-that-eliminating-the-racial-homeownership-gap-will-greatly-reduce-the-wealth-gap; Patrick Sharkey, Keeanga-Yamahtta Taylor & Yaryna Serkez, *The Gaps Between White and Black America, in Charts*, New York Times (Jun. 19, 2020), https://www.nytimes.com/interactive/2020/06/19/opinion/politics/opportunity-gaps-race-inequality.html.

The Discriminatory Policies of the 20th Century

After the Great Depression, the federal government enacted policies that helped establish homeownership as a key pillar of the white middle class[13]—while intentionally excluding Black, Hispanic, Asian American Pacific Islander, and Native communities. During the 20th century, the federal government sought to stabilize financial conditions for homeownership by establishing the Home Owners' Loan Corporation ("HOLC") in 1933, the Federal Housing Administration ("FHA") in 1934, and the secondary mortgage market. However, in practice these agencies engaged in explicit discrimination by providing publicly backed, low down payment, fixed-rate home mortgage loans almost exclusively to white Americans.[14]

The HOLC, a government agency, was charged with refinancing home mortgages in default to prevent foreclosure. To determine which mortgages to refinance, HOLC drew color-coded maps to assess the risk of default within an area. HOLC maps labeled neighborhoods green for "best," blue for "still desirable," yellow for "definitely declining," and red for "hazardous" and high credit risk simply because of the race of the residents. [15] The latter areas – those bordered by a "redline" – were most often majority Black or non-white areas. In this way Black communities were branded as undesirable with disastrous economic consequences for residents and homeowners. This practice relegated and restricted Black people to living in areas with lower levels of investment than their white counterparts —the effects of which

[13] *The Color of Law* supra note 5; Mehrsa Baradaran, *Jim Crow Credit*, 9 U.C. Irvine L. Rev. 887 (2019) https://scholarship.law.uci.edu/ucilr/vol9/iss4/4;
[14] Id.
[15] Bruce Mitchell & Juan Franco, *HOLC "Redlining" Maps: The Persistent Structure of Segregation and Economic Inequality*, National Community Reinvest Coalition (March 20, 2018), https://ncrc.org/holc/.

persist today.[16] A study by the National Community Reinvestment Coalition finds that three out of four neighborhoods redlined in the 20th century are economically disadvantaged.[17] Hundreds of redlined maps are available to view through the University of Richmond's Mapping Inequality project. [18]

These maps were federal government designations. Indeed, redlining was considered best practice by the federal government. [19] That is, the federal government considered it best practice to purposefully discriminate against Black and brown communities in approving—or denying—loans, extending credit, or otherwise have a lending presence in certain communities in order to maintain racially white neighborhoods. These policy choices prevented generations of Black families from gaining equity in homeownership or making improvements to homes already owned. The policies robbed entire communities, Black communities, of opportunities to accumulate capital, amass intergenerational wealth and enjoy equal protection under the law. Despite the homeownership boom in the 1950s and 1960s, which sent homeownership rates in the U.S. from 30 to 60 percent, 98 percent of the loans approved by the federal government between 1934 and 1968 went to white applicants.[20]

[16] Aaron Glantz & Emmanuel Martinez, *For people of color, banks are shutting the door to homeownership*, Reveal News (Feb. 15, 2018), https://revealnews.org/article/for-people-of-color-banks-are-shutting-the-door-to-homeownership/; Maria Godoy, *In U.S. Cities, The Health Effects Of Past Housing Discrimination Are Plain To See*, Public Radio (Nov. 19, 2020), https://www.npr.org/sections/health-shots/2020/11/19/911909187/in-u-s-cities-the-health-effects-of-past-housing-discrimination-are-plain-to-see.

[17] *HOLC "Redlining" Maps* supra note 17.

[18] Robert K. Nelson, et al., *Mapping Inequality*: *Mapping in New Deal America*, American Panorama, (accessed April 9, 2021), https://dsl.richmond.edu/panorama/redlining/#loc=5/45.074/-114.829.

[19] Khristopher J. Brooks, *Redlining's legacy: Maps are gone, but the problem hasn't disappeared,* CBS News (Jun. 12, 2020), https://www.cbsnews.com/news/redlining-what-is-history-mike-bloomberg-comments/.

[20] Sam Fulwood III, The United States' History of Segregated Housing Continues to Limit Affordable Housing, Center for American Progress (Dec. 15, 2016), https://www.americanprogress.org/issues/race/reports/2016/12/15/294374/the-united-states-history-of-segregated-housing-continues-to-limit-affordable-housing/.

Government policies played a significant role in the development of white suburbs, and in providing a "refuge" to those engaged in "white flight" as a means to avoid school integration, mandated by the Supreme Court's decision in *Brown v. Board of Education*.[21] The Veterans Administration ("VA") and the FHA operated on the misguided, unfounded, and racist belief that property values of white neighborhoods would decline if African Americans were permitted to integrate[22] and therefore financed entire suburbs as white enclaves, refusing to insure loans to Black families and veterans.[23] The FHA employed a system of discriminatory lending in government-backed mortgages, as evidenced by the practices described in its official Underwriting Manual.[24] The FHA reinforced and entrenched residential segregation in American cities by refusing to underwrite mortgages for potential homeowners not seeking to purchase in same-race neighborhoods.

Levittown, the famously mass-produced post-war suburb, long maintained a population that was 100% white.[25] The community's 17,000 houses, which sold for $7,990 with a 0% down payment for veterans,[26] were denied to Black veterans despite the guarantees of the Servicemen's Readjustment Act of 1944, also known as the G.I. bill. The G.I. bill offered veterans education and unemployment benefits while also guaranteeing loans for veterans who borrowed money to purchase a home, business, or farm. However, Black veterans returning

[21] 347 U.S. 483 (1954).
[22] *The Color of Law* supra note 5.
[23] Erin Blakemore, *How the GI Bill's Promise Was Denied to a Million Black WWII Veterans*, History.com (updated Sep. 30, 2019), https://www.history.com/news/gi-bill-black-wwii-veterans-benefits.
[24] Federal Housing Administration, *Underwriting Manual: Underwriting and Valuation Procedure Under Title II of the National Housing Act* (1938), https://www.huduser.gov/portal/sites/default/files/pdf/Federal-Housing-Administration-Underwriting-Manual.pdf.
[25] Collin Marshall, *Levittown, the prototypical American suburb – a history of cities in 50 buildings, day 25,* The Guardian, (April 28, 2015), https://www.theguardian.com/cities/2015/apr/28/levittown-america-prototypical-suburb-history-cities.
[26] Id.

home were routinely denied the option of buying cheap and affordable housing with no down payment that propelled their white counterparts into the middle class and were excluded from "all-white" enclaves like Levittown. Indeed, in 1947, only two of the more than 3,200 VA-guaranteed home loans in thirteen Mississippi cities went to Black borrowers.[27] And in New York and the northern New Jersey suburbs, fewer than 100 of the 67,000 mortgages insured by the G.I. bill supported home purchases by non-whites.[28]

By guaranteeing affordable mortgages for white families and excluding Black families or limiting Black families to purchase in less economically advantageous neighborhoods, the government created, encouraged, and reinforced intense residential racial segregation throughout the nation.

"White flight," or the creation of white suburbs, was also undergirded by massive federal investments in the construction of the interstate highway system. The federal government often took possession of homes and land in Black communities by claiming eminent domain in order to construct highways as physical barriers between white neighborhoods and areas with a large presence of African Americans or communities of color.[29]

Notably, the government also established the Public Works Administration ("PWA") Housing Division in 1933[30] which sponsored public housing construction and slum clearance to improve the housing conditions of low-income white families. The PWA routinely razed Black

[27] Ira Katznelson & Suzanne Mettler, *On Race and Policy History: A Dialogue about the G.I. Bill*, Perspectives on Politics 6, no. 3 (2008) http://www.jstor.org/stable/20446759.
[28] Id.
[29] Steve Inskeep, *A Brief History Of How Racism Shaped Interstate Highways*, National Public Radio (April 7, 2021), https://www.npr.org/transcripts/984784455.
[30] Initially named the *Federal Emergency Administration of Public Works* the agency was renamed the Public Works Administration in 1935. *Records of the Public Works Administration [PWA]*, National Archives (last accessed April 12, 2021), https://www.archives.gov/research/guide-fed-records/groups/135.html.

neighborhoods, which were often viewed as slums as a result of government policies, in order to create new housing projects that would deny Black applicants.[31] Federal and local governments also promoted segregation in the private market by implicitly endorsing the use of racially restrictive covenants in deeds to prevent the sale of homes to Black families; blockbusting--in which real estate agents would persuade white families to sell their homes at low costs and then resell the vacant homes to Black families at inflated prices; and refusing to intervene to protect Black families from racist vigilante violence when moving into white neighborhoods.[32]

The confluence of these discriminatory policies and practices provided many white Americans an opportunity to amass wealth and create a stable financial foundation to protect themselves from unforeseen economic setbacks—an opportunity that was unjustly and purposefully denied to many Black and brown families. Because housing is the primary means by which families pass generational wealth, a lack of intergenerational wealth among Black families forces each successive generation to start anew, without a firm foundation to build upon.[33]

Two Unequal Americas

Any investigation into the current housing, affordability, eviction, and infrastructure crises reveals a system of deliberate and discriminatory government policy. This country is still living with the consequences of decisions made by federal government officials in the 20th

[31] *The Color of Law* supra note 5
[32] Id.
[33] Michela Zonta and Sarah Edelman, *Toward Jobs and Justice: Where You Live Matters*, Center for American Progress (2017), https://www.americanprogress.org/issues/economy/reports/2017/01/09/296114/toward-jobs-and-justice/

century. Due to lackluster enforcement of anti-discrimination laws, efforts to rectify these policy decisions have thus far resulted in superficial and immaterial progress. In fact, Black homeownership today, remains at levels similar to 1968, when the Fair Housing Act was passed.[34] Indeed, the gap between white and Black homeownership rates is the largest it has been since 1890.[35] The homeownership rate for Black Americans is 42%, compared to white homeownership of 72.1%, and 48.1% for Latinos.[36]

High rates of housing discrimination nationwide persist today in both housing rentals and sales.[37] More than four million instances of housing discrimination occur each year, and the vast majority are unreported.[38] A 2020 study found that racial discrimination was the second most reported type of housing discrimination comprising 16.47 percent of all cases.

Unfortunately, our nation remains largely segregated by race. We have indeed become the two societies, warned of by Kerner Commission: "one black, one white—separate and unequal."[39] Areas in which discrimination persist, expose a pernicious chain reaction: when any American is denied equal access to housing, it reduces their access to good jobs, quality

[34] Alanna McCargo and Jung Hyun Choi, *Closing the Gaps: Building Black Wealth Through Homeownership*, Urban Institute (November 2020), https://www.urban.org/sites/default/files/publication/103267/closing-the-gaps-building-black-wealth-through-homeownership_0.pdf.
[35] Adam Levitin, *How to Start Closing the Racial Wealth Gap*, The American Prospect (June 17, 2020), https://prospect.org/economy/how-to-start-closing-the-racial-wealth-gap/ .
[36] *Closing the Gaps: Building Black Wealth Through Homeownership* supra note 14.
[37] Jeffrey Dillman, *Symposium: New Strategies in Fair Housing:New Strategies for Old Problems: The Fair Housing Act* at 40, 57 Clev. St. L. Rev. 197, 201-202 (2009), https://engagedscholarship.csuohio.edu/clevstlrev/vol57/iss2/3/.
[38] *Report Housing Discrimination*, National Fair Housing Alliance (last accessed April 2, 2021), https://nationalfairhousing.org/report-housing-discrimination/.
[39] U.S. National Advisory Commission on Civil Disorders, *The Kerner Report* (New York: Pantheon Books, 1968).

education, safe streets, reliable transportation and a clean and healthy environment.[40] It is Congress' duty to repair the damage that is so evident before us.

The promise of the American Dream—a home, a safe community, and opportunity for upward mobility—is often presented as attainable through hard work, individual tenacity, and diligent personal savings. But the promise of that dream remains perpetually out of reach for many. A safe, affordable, place to live is unattainable for many Americans, not because of personal failings, but because of the government's failure to compel housing markets to comply with anti-discrimination laws, and the unwillingness of the government to provide African Americans and communities of color with the same opportunities that were given to white communities after the Great Depression.

Housing represents more than just a physical dwelling—it allows for the creation of a shared community, for access to clean air and water, good public schools, proximity to quality jobs, access to reliable public transit, and recreational spaces.[41] As the foundation of the American Dream, homeownership is also the primary way that most families build generational wealth and economic stability. However, the stark racial inequality and segregation perpetrated by government policy has resulted in little change in Black wealth, homeownership and/or neighborhood conditions. A recent study found that Black families making $100,000 typically live in neighborhoods comparable to ones in which white families making $30,000 live.[42] These

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[40] Patrick Sharkey, *Neighborhoods and the Black White Mobility Gap*, Pew Charitable Trusts (July 2009), https://www.pewtrusts.org/~/media/legacy/uploadedfiles/wwwpewtrustsorg/reports/economic_mobility/pewsharkeyv12pdf.pdf

[41] Emily Badger & Quoctrung Bui, *Detailed Maps Show How Neighborhoods Shape Children for Life*, New York Times (Oct. 1, 2018), https://www.nytimes.com/2018/10/01/upshot/maps-neighborhoods-shape-child-poverty.html.

[42] Matthew Kredell, *Sociologist reports only minor progress in racial equality over last 40* years, USC Sol Price Center for Social Innovation (Feb. 27, 2015), https://priceschool.usc.edu/sociologist-reports-only-minor-progress-in-racial-equality-over-last-40-years/.

disadvantaged neighborhoods are characterized by a lack of resources, poor public schools, health disparities, and limited economic opportunities.[43] Despite individual economic success, Black families have been exposed to and relegated to these neighborhoods by government policy and inaction for decades.

Historic and ongoing systemic racism has left families of color more vulnerable

Decades of structural racism created tremendous racial disparities in housing and homelessness. Renters of color are much more likely to be housing cost-burdened: 52% of Latino renters and 54% of Black renters are cost-burdened, more than 10 percentage points higher than white renters.[44] Black Americans represent roughly 13% of the general population but are 40% of people experiencing homelessness and more than 50% of homeless families with children.[45] Black families were disproportionately vulnerable going into the 2008 housing crisis. The 2008 housing crisis and the government's inadequate response caused disproportionate harm to low-income people of color with Black families losing their homes at the rate of white families.[46] Similarly, the COVID-19 pandemic and economic collapse of 2020 devastated millions of families particularly people with low incomes and people of color. The COVID-19 pandemic has led to unprecedented crises and loss throughout the country. Recent

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[43] Patrick Sharkey, *Ending Urban Poverty: The Inherited Ghetto*, The Boston Review (Jan. 1, 2008) http://bostonreview.net/patrick-sharkey-inherited-ghetto-racial-inequality; Rejane Frederick, *The Environment That Racism Built*, Center for American Progress (may 10, 2018), https://www.americanprogress.org/issues/race/news/2018/05/10/450703/environment-racism-built/.

[44] *The State of the Nation's Housing*, Joint Center for Housing Studies of Harvard University (2020), https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2020_Report_Revised_120720.pdf

[45] *Homelessness and Racial Disparities*, National Alliance to End Homelessness (2020), https://endhomelessness.org/homelessness-in-america/what-causes-homelessness/inequality/.

[46] Sarah Burd-Sharps and Rebecca Rasch, *Impact of the US Housing Crisis on the Racial Wealth Gap Across Generations*, Social Science Resource Council and the American Civil Liberties Union (June 2015), https://www.aclu.org/sites/default/files/field_document/discrimlend_final.pdf.

reports indicate that around 560,000 people have died from COVID-19 and over 31 million people have contracted the virus.[47] Nationwide, Black Americans are 3.4 times more likely to have died from COVID-19 than white Americans.[48]

As the pandemic continues, the nation finds itself in the midst of a foreclosure and eviction crisis which severely threatens the ability of Americans to maintain their homes and safely endure the pandemic. For example, in Mississippi nearly 60 percent of renter households are at risk of eviction, making it the third most housing insecure state in the United States.[49] The U.S. Census Bureau reported that from July 16-21, over 90,000 Black Mississippians were unable to cover their month's rent and about 103,000 had little or no confidence in their ability in meeting obligations for the rent in August.[50] Similarly, more than 42,000 Black Mississippians were unable meet their mortgage payment obligations during the same period and about 61,000 had little or no confidence in their ability to make a payment in August.[51] The current eviction and foreclosure crisis will only serve to further entrench economic inequality in the country.

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[47] *Coronavirus in the U.S.: Latest Map and Case Count*, New York Times (last visited April 9, 2021 1:03 PM), https://www.nytimes.com/interactive/2020/us/coronavirus-us-cases.html.

[48] *The Color of Coronavirus: COVID-19 Deaths by Race and Ethnicity in the U.S.*, APM Research Lab (last updated March 5, 2021), https://www.apmresearchlab.org/covid/deaths-by-race; *COVID-19 hospitalization and deaths by race/ethnicity*, Centers for Disease Control and Prevention (last updated March 12, 2021), https://www.cdc.gov/coronavirus/2019- ncov/covid-data/investigations-discovery/hospitalization-death-by-race-ethnicity.html.

[49] Anna Wolfe, *Over half of Mississippi renters could face eviction during pandemic without protections from Congress*, MS Today (Aug. 13, 2020), https://mississippitoday.org/2020/08/13/over-half-of-mississippi-renterscould-face-eviction-during-pandemic-without-help-fromcongress/#:~:text=BY%20ANNA%20WOLFE%20%7C%20AUGUST%2013,%2D19%20pandemic%2C%20researchers%20estimated.

[50] U.S. Census Bureau, *Household Pulse Survey July 16-21* (July 29, 2020), https://www.census.gov/data/tables/2020/demo/hhp/hhp12.html.

[51] Id.

<u>The Opportunity - Housing as Infrastructure</u>

This moment presents an opportunity, that Congress must rise to meet. For the resilience of the country, economic prosperity and the stability and prosperity of the American people, this moment demands Congress undertake a bold, comprehensive approach to the housing and infrastructure crisis. At this critical point in history, it is of paramount importance that any infrastructure bill addresses the impact of the deliberate and flawed policies of the past.

As the nation recovers from the pandemic, Congress must invest in solutions that address the underlying, structural causes for our nation's housing crisis, and advance policies needed to ensure housing programs work for Black and other historically disadvantaged communities.

As noted, after great economic crises, the government has historically pursued national housing initiatives reliant upon federal spending and control to bring about the responsible development and revitalization of housing and infrastructure.[52] However, in recent years, the role of federal, state, and local governments in creating housing infrastructure has largely diminished. The 1980s saw a shift in policy, away from federally funded community development projects relating to public goods like housing, to limiting government involvement and instead centered an overreliance on the private sector to carry out the national public agenda.

[52] Michael Neal & Alanna McCargo, *How Economic Crises and Sudden Disasters Increase Racial Disparities in Homeownership*, The Urban Institute (June 2020), https://www.urban.org/sites/default/files/publication/102320/how-economic-crises-and-sudden-disasters-increase-racial-disparities-in-homeownership.pdf.

Congress has the opportunity to address the impact of these deliberate policies, to take bold action to undo mistakes and the discriminatory policy choices of the past. The federal government must take swift and courageous action in approaching solutions to our current housing and infrastructure crises. It must take into account the fabric and make-up of communities in order to be successful. It must meet people where they are and include sincere community involvement.[53] Thriving communities require stable and accessible infrastructure. Communities exist because people settle to attend good public schools, find good paying jobs, are able to access safe and reliable transit, have a yard and beautiful green parks to enjoy. And a truly critical aspect of infrastructure of thriving and supportive communities is affordable housing. The construction and preservation of our country's affordable housing stock will strengthen economic growth, promote economic mobility, and provide greater household stability and improved wellness outcomes.

Discussions about housing as infrastructure, must be grounded in the context of affordability. Congress should increase the supply of affordable housing to people with the lowest incomes through the renovation and construction of public housing—as done in the past. Public housing is now associated with something bad or shameful, often viewed as a government hand-out or dirty. Much of the current public housing stock is run-down, outdated and located in poor and undesirable neighborhoods. However, public housing is the foundation upon which many white families built their wealth and was the steppingstone which allowed them to move into the middle class.[54] While the housing crisis is multifaceted, the lack of

[53] Margery Austin Turner, *History of Place-Based Interventions*, U.S. Partnership on Mobility From Poverty (2017), https://www.mobilitypartnership.org/publications/history-place-based-interventions
[54] *Color of Law* supra note 5.

affordable housing cannot be overlooked. Rents have risen much faster than renters' incomes over the last two decades—renters' incomes have increased by only 5% while rents have risen 61%.[55]

<u>Water Affordability</u>

Water affordability is also a growing crisis as this nation's crumbling infrastructure contributes to high water bills and the loss of home ownership. Throughout its history, LDF has consistently worked to address inequities in the provision of water services. In the late 1960s, LDF litigated *Hawkins v. Shaw*, the first lawsuit seeking to redress racial disparities in the provision of certain municipal services, including water and sewer services, under the 14th Amendment to the U.S. Constitution.[56] In *Hawkins*, the Fifth Circuit Court of Appeals determined that the town of Shaw, Mississippi, violated the constitutional guarantee of equal protection by failing to provide the same level of water, sewer, and other municipal services in its Black neighborhoods as were provided in Shaw's white neighborhoods.[57] In June 2019, LDF and its Thurgood Marshall Institute released a report entitled "Water/Color: A Study of Race and the Water Affordability Crisis in America's Cities".[58] Our report discusses the link between racial discrimination and water affordability and explains the current water affordability crisis impacting Black communities across the nation.

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[55] Andrew Aurand, et. al., *Advancing Racial Equity in Emergency Rental Assistance Programs*, Furman Center (2021), https://nlihc.org/sites/default/files/HIP_NLIHC_Furman_Brief_FINAL.pdf; *Out of Reach: The High Cost of Housing*, National Low Income Housing Coalition (2020), https://nlihc.org/resource/nlihc-releases-out-reach-2020#:~:text=NLIHC%20released%20Out%20of%20Reach,Housing%202020%20on%20July%2014.&text=In%202020%2C%20the%20national%20two,rent%20of%20%241%2C246%20per%20month.

[56] *Hawkins v. Shaw*, 303 F. Supp. 1162 (N.D. Miss. 1969).

[57] *Hawkins v. Shaw*, 437 F.2d 1286, 1290 (5th Cir. 1971), affirmed by *Hawkins v. Shaw*, 461 F.2d 1171, 1173 (5th Cir. 1972).

[58] Coty Montag, NAACP Legal Def. & Educ. Fund, Inc., *Water/Color: A Study of Race and the Water Affordability Crisis in America's Cities* (2019), https://tminstituteldf.org/publications/2383/.

Our report finds that as government policies of the 20th century made cities more racially segregated, localities began to prioritize water services to white areas. As part of the white housing boom, American homes were significantly modernized. By 1940, approximately 94 percent of urban homes had clean running piped water and sewer pipes for waste disposal, and more than 80 percent had interior flush toilets.[59] New technologies—such as automatic dishwashers, washing machines, and air conditioners—increased Americans' water usage and strained existing infrastructure.[60] Discrimination in both the public and private sectors restricted not only housing options in Black communities, but relegated African Americans to sub-par water supply and access.

The Clean Water Act of 1972 required municipalities to expend significant funds to build and upgrade facilities to treat water. The federal government funded most of these improvements following passage of the statute. In the 1970s, federal funding for water systems was at an all-time high, peaking in 1977.[61] When adjusted for inflation, the federal government provided about $80 billion to local utilities to construct and upgrade treatment facilities in the 15 years after the law was enacted.[62] Many of these infrastructure improvements disproportionately benefited white families as the same policies that restricted African Americans from accessing housing, restricted African Americans from accessing clean water.

[59] Robert J. Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living Since the Civil War* (2017).
[60] Martin V. Melosi, *The Sanitary City: Environmental Services in Urban America from Colonial Times to the Present* (2008).
[61] U.S. Cong. Budget Office, *Public Spending on Transportation and Water Infrastructure*, Publ'n No. 49910, (Sept. 5, 2017), https://www.cbo.gov/publication/49910 (follow URL and then select link to the "Supplemental Tables" in the "Data and Supplemental Information" section).
[62] David Sedlak, *Water 4.0: The Past, Present, and Future of the World's Most Vital Resource* (2015).

By far, the biggest factor contributing to rising water costs in the United States is aging and failing infrastructure. Pipes installed at the beginning of the 20th century, in the post-World War II era, and during the 1970s Clean Water Act construction boom all require replacement now, due to varying materials and techniques used during these periods.[63] Utilities nationwide have ranked the renewal and replacement of aging water and wastewater infrastructure as the most pressing issue facing the industry every year since at least 2014.[64] At the current replacement rate, it will take another 200 years before the million pipes across the country are fully replaced.[65] Failures in drinking water infrastructure can lead to significant issues, including water disruptions, impediments to emergency response, and unsanitary health conditions.[66] Water main breaks are estimated to cost $2.6 billion annually.[67]

Conclusion

The current disparities in housing and homeownership are the result of decades of government policy, some intentionally discriminatory and some woefully negligent. It is incumbent upon the federal government to do its duty and right these wrongs. Fifty-two years after the passage of the Fair Housing Act, our nation still struggles with entrenched housing segregation that contributes to nearly insurmountable societal repercussions. Congress must do everything within its power to ensure that the federal fair housing laws are fully enforced

[63] American Society of Civil Engineers, *2017 Infrastructure Report Card: Drinking Water* (2017), https://www.infrastructurereportcard.org/wp-content/uploads/2017/01/Drinking-Water-Final.pdf.
[64] American Water Works Association, *2018 State of the Water Industry Report* (2018), https://www.awwa.org/Portals/0/ AWWA/Development/Managers/2018_SOTWI_Report_Final_v3.pdf
[65] *2017 Infrastructure Report Card: Drinking Water* (2017) supra note -2
[66] American Society of Civil Engineers, *Failure to Act: Closing the Infrastructure Investment Gap for America's Economic Fut*ure (2016), https:// www.infrastructurereportcard.org/wp-content/uploads/2016/10/ASCE-Failure-to-Act-2016-FINAL.pdf.
[67] Patricia Buckley, Lester Gunnion & Will Sarni, *The Aging Water Infrastructure: Out of Sight, Out of Mind?* (Mar. 21, 2016), https://www2.deloitte.com/insights/us/en/economy/issues-by-the-numbers/us-aging-water-infrastructure-investment-opportunities.html.

and must take serious action to create policies to address/rectify the years of discriminatory policies and practices which have led to the tremendous inequalities we see today.

We urge Congress to consider the following policy recommendations in any consideration of comprehensive infrastructure reform:

- Infrastructure investments in affordable housing stock, urban water systems, public transit, community facilities and centers, schools and telecommunications.
- Prioritize infrastructure investments in communities and areas which have long been neglected and need them most.
- Vigorous enforcement of Affirmatively Furthering Fair Housing.
- Rigorous Title VI enforcement for federal funds supporting local projects.
- Environmental justice review and enforcement.

Thank you for the opportunity to submit this testimony. LDF remains available to provide additional information to this Committee.

PREPARED STATEMENT OF LISA RICE

PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL FAIR HOUSING ALLIANCE

APRIL 13, 2021

Introduction

The National Fair Housing Alliance (NFHA) is the country's only national non-profit civil rights agency dedicated to eliminating all forms of housing discrimination and ensuring equitable housing opportunities for all. We do this by providing leadership, education, outreach, advocacy, community development, enforcement, and services to our membership. NFHA is also the trade association for over 200 fair housing organizations throughout the United States.

Many of the economic challenges facing our nation—the racial wealth, income and homeownership gaps; the racial health disparities resulting from the COVID-19 pandemic; the disparate outcomes of the COVID-19 economic impacts; inequities in credit access—have their origins in discriminatory housing and economic policies implemented from the colonial period through present times.

There is a centuries-long perception that many have held asserting that people's accomplishments were the result of a hard work ethic and determined grit, and that others who did not achieve similar success just did not work hard enough or were not smart about the choices they made in life.

The reality is that Whites in this nation have always benefited from government and other systems that supported them, making the American Dream more attainable, while People of Color have been deliberately excluded from these same opportunities.

Throughout U.S. history, People of Color have been restricted from owning land or homes. Laws were passed directing where People of Color could live often placing Communities of Color next to undesirable land or hazardous sites. Laws were passed restricting the conditions under which People of Color could own homes. And it was common for prohibitions to be placed on the ability of People of Color to pass on their wealth to their heirs.

Federal laws and policies created residential segregation, the dual credit market, institutionalized redlining, and other structural barriers. When we passed our nation's civil rights laws, we restricted the ability of lenders and housing providers to consider a person's race or national origin when making a decision. But we left the structures of inequality in place. We passed the Fair Housing Act, but we left residential segregation and exclusionary zoning ordinances in place; we passed the Equal Credit Opportunity Act, but we left the Dual Credit Market in place. We passed other civil rights laws but we left structural racism in place. Well those systemically unfair systems that we left in place are doing their job; they are performing their function. So we should not be surprised at growing inequality and racial disparities.

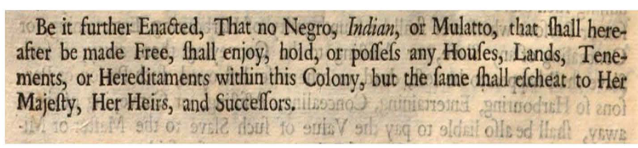
Until we dismantle structural racism, we'll continue to see these injustices. It is imperative that we not only enforce our nation's civil rights laws, including the Civil Rights Act of 1866, the Fair Housing Act, the Equal Credit Opportunity Act, and other laws, but that we pass additional laws that level the playing field, create equitable opportunities for people in this country, and promote U.S. productivity.

Historical Discrimination

For centuries, laws and policies passed to create land, housing, and credit opportunities were race-based, denying critical opportunities to Blacks, Latinos, Asian Americans, and Native Americans. From the Black Codes passed during the colonial period, to Slave Codes passed after the inception of the U.S., to Jim Crow laws passed after passage of the 13th Amendment, to the bevy of laws passed during and in the aftermath of the Great Depression, policies were explicitly designed to provide land, housing, and financial benefits to Whites while denying them to People of Color.

Hundreds of laws and policies were passed creating housing and finance systems that were inequitable and unjust. Many of these systems are still in existence – residential segregation, school segregation, restrictive and exclusionary zoning ordinances, the dual credit market, biased technologies – are still performing their functions, perpetuating discriminatory and disparate outcomes that continue to disproportionately impact consumers and communities of color.

Black Codes Restrict Land, Housing and Financial Independence for People of Color


Be it further Enacted, That no Negro, *Indian*, or Mulatto, that ſhall hereafter be made Free, ſhall enjoy, hold, or poſſeſs any Houſes, Lands, Tenements, or Hereditaments within this Colony, but the ſame ſhall eſcheat to Her Majeſty, Her Heirs, and Succeſſors.

3

Section of the 1712 New York Statute prohibiting Free Blacks, Indians, and Mulattos from possessing houses, lands, or tenements.

In colonies established by the Netherlands, Spain, France, Sweden, and England, laws were created to control rights and privileges for enslaved people – primarily Black people from African countries. Slavery was introduced in what is now the U.S. as early as 1526 by the Spanish government which launched expeditions to the southern part of North America. People of African descent were brought as slaves to what is now Florida and South Carolina to work against their will. In 1586 Sir Francis Drake brought enslaved Africans with him to help establish a colony in Roanoke, VA. That colony failed. Later, in 1619 about 20 Africans from Angola were brought to the Jamestown colony which had been settled by England. In 1621 the Dutch West India Company established a colony in what is now New York and introduced African Labor although the first person of African descent, Juan Rodriguez, arrived in the area in 1613. While there were people of African descent who were free, in 1655 the Dutch established the area as a slave trading port and significantly increased restrictions on Black people. Prior to 1639, the Swedish primarily used Native peoples as slaves. The first person of African descent to serve as a slave in the Swedish colony was a man by the name of Anthony who was brought to the area in 1639.

When the Dutch took over the Swedish colonies in 1655, the number of African slaves grew precipitously.[1]

In all of the colonies established by European countries, laws were established to restrict the privileges of People of Color. Most of these laws were directed at people of African descent since they became the primary group to be enslaved in the colonies. The laws, sometimes call Black Codes[2] dictated where free and enslaved people could live, restricted their ability to purchase and own land, stripped them of their wealth, and prohibited their ability to pass their land, homes, and wealth to their progeny.

For example, in 1707, the New York colony passed a new law prohibiting free Black people from owning or inheriting land. In 1712, this law was not only strengthened but a statute was also passed prohibiting Black people from being freed by their owners unless the owner paid a bond. This provision served to quash the possibility of freedom to many people who were enslaved. Similar laws were passed in multiple jurisdictions throughout the colonies.

The story of Anthony Johnson reflects the reality of life for People of Color during the colonial period in the U.S. Mr. Johnson was captured in Angola, Africa as a slave and eventually sold to the Virginia Company and brought to the British Virginian colony in 1621. After 15 years of servitude, he was able to secure his freedom. At some point, his wife Mary was able to secure her freedom as well. Mr. and Mrs. Johnson ultimately purchased 250 acres of land on the Pungoteague Creek on the eastern shore of Virginia by purchasing the headrights of 5 indentured servants. He gave 50 acres of that land to his son, 4
Richard. But upon Mr. Johnson's death in 1670, a court seized the land from Richard and his wife, even though they had lived on the land for 50 years, and gave it to Mr. Johnson's White neighbor, George Parker.[3] The court ruled that Mr. Johnson was Black and therefore an "alien," that he could not be a citizen by virtue of the fact that he was not White.[4]

Land Extracted from Native Peoples Creates Wealth Disparities

Long before passage of the Indian Removal Act in 1830 or the 1887 Dawes Act, early colonists commandeered land from American Native nations. In some cases, Indian tribes gave land to European settlers, but the lion share of the land acquired by new colonists under the Headrights system or through Land and Homestead grants was taken forcibly.

Native Americans have lost control of hundreds of millions of acres of land. As more European immigrants came to the U.S., indigenous people were moved from their lands. Even military action was evoked to extract land. Native peoples were forced to move to areas established for them by whatever government was in control of the area at the time.

The forced removal of Native groups had a devastating impact. Not only did Native Americans lose their lives and way of life, they lost much of their wealth, access to the resources the land provided, and the

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[1] *Slavery in Delaware*, March 28, 2009, Committee on Slavery of the Diocese of Delaware. Available at http://www.ssam.org/wp-content/uploads/2018/12/SlaveryInDelaware.pdf

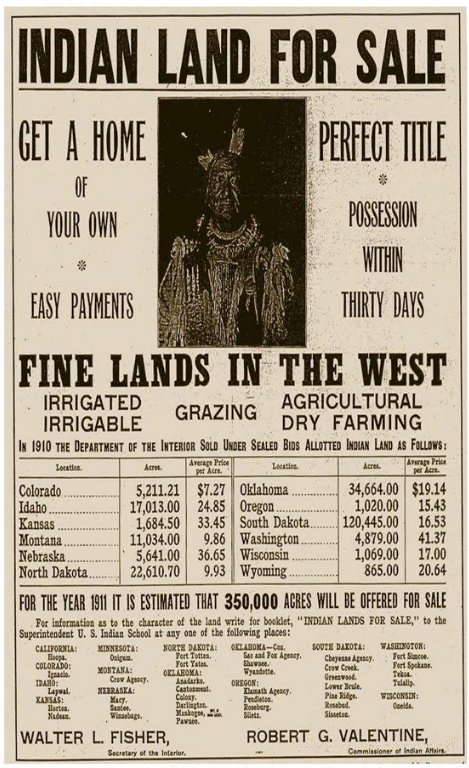
[2] The French established the Code Noir in 1685.

[3] Charles Johnson and Patricia Smith, *Africans in America: America's Journey through Slavery* (San Diego: Harcourt & Brace, 1999), 37–43

[4] *"Race and Belonging in Colonial America: The Story of Anthony Johnson,"* 2021, Facing History and Ourselves. Available at https://www.facinghistory.org/reconstruction-era/anthony-johnson-man-control-his-own

ability to pass on their prosperity to future generations. What amounted to untold loss for Native Americans represented a bounty for and tremendous transferal of wealth to European settlers.

Native American groups are still disproportionately impacted by the bevy of laws and actions taken to rob them of their lands, wealth, and culture. Today, the homeownership rate for Native Americans is roughly 51%[5] compared to 74.5%[6] for Non-Hispanic Whites.



United States Department of the Interior advertisement offering 'Indian Land for Sale'.

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[5] "Homeownership Rates Show that Black Americans are Currently the Least Likely Group to Own Homes," July 28, 2020. USA Facts. Available at: https://usafacts.org/articles/homeownership-rates-by-race/

[6] "*White Homeownership Rate Hits Nine-year High*," February 2, 2021. HousingWire. Available at: https://www.housingwire.com/articles/white-homeownership-rate-hits-nine-year-high/

European Settlers Receive Tremendous Support for Land and Homeownership

The same policies and practices that deprived People of Color from the benefits and opportunities to own land, housing, businesses, and build wealth provided wide-scale benefits to White Americans. Historical "housing" policies formed the basis for current homeownership and racial wealth disparities, and our dual and bifurcated credit market.

When the English established colonies, they offered what were known as *headrights* to settlers. The headrights system, credited for the quick and broad expansion of the thirteen British colonies, provided heads of households 50 acres of land (or more) for each person in the household, including indentured servants and slaves. But the land granted these settlers was not just free for the taking. It was land that was primarily seized from indigenous tribes. Militias were employed both to commandeer lands and provide protection to settlers and assist in infrastructure development and building projects.

The provision of lands and assistance provided by troops came at a not-small cost supported by government and corporations like the Virginia Company and Plymouth Company. It was this government supported resource that made it possible for early settlers to obtain land and pass down wealth for their families.

The headrights system morphed into the Land Grant and Homestead Grant programs, which were based on similar principles. Land grants were given to veterans of the Revolutionary War as payment and compensation for their service. Ironically, enslaved Black people who requested their freedom, given the premise of the Revolutionary War–freedom from tyranny–were denied, and slavery would continue in the United States for another 82 years. New European immigrants who became citizens, as well as those 6
who were already living in the United States, including people who were formerly indentured servants, were able to take full advantage of these government supported programs.

U.S. citizens received 1.6 million homestead grants, and through headrights, land, and homestead grants combined, hundreds of millions of acres were redistributed, amounting to a phenomenal transference of wealth. These programs almost exclusively benefited White people.

Private actors such as banks, real estate professionals, and other players in the housing and financial sectors created their own policies and practices that robbed People of Color from the ability to build and maintain wealth while simultaneously supporting Whites. The erroneous belief that People of Color were inferior to people of European descent served as the basis for discriminatory practices that existed for centuries.

An excellent example of the pervasiveness of race-based policies is the system of ranking "races" and "nationalities" refined by noted real estate expert Homer Hoyt who served as the Federal Housing Administration's first principal housing economist. The system Hoyt developed was based on the perceived "beneficial effect upon land values" that "those having the most favorable" impact on land values are ranked at the top of the list and those who were perceived as having a negative impact on land values are ranked at the bottom. Below is the ranking as perfected by Hoyt:

1. English, Germans, Scotch, Irish, Scandinavians
2. North Italians
3. Bohemians or Czechoslovakians

4. Poles
5. Lithuanians
6. Greeks
7. Russian Jews of the lower class
8. South Italians
9. Negroes
10. Mexicans

We still feel the impacts of this hierarchy today as studies reveal that the racial composition of a neighborhood can greatly impact the property valuation in the area. One study revealed that, after controlling for factors like housing quality, neighborhood quality, amenities, education levels, and crime rates, homes located in predominately Black communities are valued 23% lower than those in predominately White communities. At an undervaluation of $48,000 per home, this represents an amount of $156 billion in lost wealth for homeowners in Black communities.

The support of White households and communities and simultaneous deprivation of Black, Latino, and Native American communities have contributed to the stark racial wealth gap and ability of people to pass on wealth to their children. Data from the 2019 Survey of Consumer Finances conducted by the 7
Federal Reserve reveals the median household wealth for Whites is $188,200. The median for Black and Latino households is $24,100 and $36,100 respectively. While 26 percent of White families receive an inheritance, only 8 percent of Black families receive one, and when Black families do inherit wealth, it is only 35 percent of what White families inherit.[7]

The COVID-19 pandemic may well worsen the wealth gap. The majority of Latino, Black, and Native American households are not able to withstand the financial upheavals associated with the current economic crisis. According to an analysis by NPR, 72% of Latino households, 60% of Black households, 55% of Native American households, 37% of Asian households, and 36% of White households are experiencing serious financial programs during the COVID pandemic.[8]

Segregation Remains a Major Driver of Inequality

In this nation where you live matters. Your address determines almost everything about you - your chances of graduating from high school or college, getting arrested, net worth, income, ability to own a home, credit score and how long you will live. Your zip code is a better determinant of your health than your genetic code. Segregation creates a built inequitable environment where resources and opportunities get concentrated in predominately White communities and are sparsely located in Communities of Color.

[7] Ruth Umoh, "How Closing the Racial Wealth Gap Helps The Economy," *Forbes*, August 15, 2019, https://www.forbes.com/sites/ruthumoh/2019/08/15/how-closing-the-racial-wealth-gap-helps-the-economy/#101119847942.

[8] Rhitu Chatterjee, "How the Pandemic is Widening the Racial Wealth Gap," September 18, 2020. NPR. Available at: https://www.npr.org/sections/health-shots/2020/09/18/912731744/how-the-pandemic-is-widening-the-racial-wealth-gap

Segregation is not a natural construct. Our neighborhoods are segregated by design and it was perpetuated by federal and local governments[9] as well as private actors[10]. Hundreds of laws, policies, and ordinances such as the Land Grants Act, Homestead Act, Home Owners Loan Corporation Act, Indian Removal Act, Dawes Act, National Housing Act, Federal Aid Highway Act, Chinese Exclusion Act, Repatriation Acts, Housing Act of 1949, all worked to create residential segregation, steepen school segregation, put in place restrictive zoning ordinances, support the use of restrictive covenants, create the dual credit market, and entrench inequality. They created systems – still with us today – that are deeply unjust and that drive widescale disparities.

Segregation is a major reason why where people live determines their outcomes in life. That is because *place* is inextricably linked to *opportunity*. Unfortunately, housing segregation remains the primary driver of inequality. It is the bedrock of inequality in America because neighborhoods of color are more likely to have poorly resourced schools and fewer amenities like healthcare facilities, grocery stores, green spaces, and bank branches. But communities of color are more likely to have hazardous and toxic waste plants and more polluted land, air, and water.

Discrimination and segregation lie at the root of the disparities we see related to the COVID-19 pandemic in which Black[11], Latino[12], and Native Americans[13] are hospitalized for and dying from the coronavirus at 2 – 4 times the rate of Whites. These groups are also much less likely to get vaccinated.

Risk for COVID-19 Infection, Hospitalization, and Death By Race/Ethnicity

Rate ratios compared to White, Non-Hispanic persons	American Indian or Alaska Native, Non-Hispanic persons	Asian, Non-Hispanic persons	Black or African American, Non-Hispanic persons	Hispanic or Latino persons
Cases[1]	1.7x	0.7x	1.1x	1.3x
Hospitalization[2]	3.7x	1.0x	2.9x	3.1x
Death[3]	2.4x	1.0x	1.9x	2.3x

Race and ethnicity are risk markers for other underlying conditions that affect health, including socioeconomic status, access to health care, and exposure to the virus related to occupation, e.g., among frontline, essential, and critical infrastructure workers.

Chart prepared by the Centers for Disease Control

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[9] New Towne Court in Boston is a great example of local government creating segregation. The Housing Authority razed about 100 homes in what had been an integrated community and built a public housing development. But the new residents were all White; Blacks were not allowed to live there. The governments had segregated the community. This was by design and it was common, not just throughout Boston, but all over the nation.

[10] For example, the National Association of Real Estate Boards amended its code of ethics in 1924 to state that "a Realtor should never be instrumental in introducing into a neighborhood . . . members of any race or nationality . . . whose presence will clearly be detrimental to property values in that neighborhood." See Gotham, Kevin F., *Race, Real Estate, and Uneven Development: The Kansas City Experience, 1900–2010*. 2014. Albany: State University of New York Press, page 35.

[11] Scott Neuman, "COVID-19 Death Rate For Black Americans Twice That For Whites, New Report Says," August 13, 2020. NPR. Available at https://www.npr.org/sections/coronavirus-live-updates/2020/08/13/902261618/covid-19-death-rate-for-black-americans-twice-that-for-whites-new-report-says

[12] "Risk for COVID-19 Infection, Hospitalization, and Death By Race/Ethnicity," March 12, 2021. Centers for Disease Control. Available at https://www.cdc.gov/coronavirus/2019-ncov/covid-data/investigations-discovery/hospitalization-death-by-race-ethnicity.html

[13] Ibid.

Residential segregation is the bedrock of this inequality because it serves as the basis for directing which communities will receive certain resources and which areas will be deprived or starved of critical investments. The effects of redlining, residential segregation, discriminatory policies, and disinvestment have created a scenario where people of color do not live in areas with ample access to healthcare facilities, green and healthy environments, clean water, quality credit, healthy foods, high-performing schools, and other important amenities that people need to thrive. These structural factors, coupled with implicit and overt bias in our healthcare system, are driving horrible outcomes related to the COVID-19 crisis.

When you look at our residential and lending patterns, we are a century behind where we need to be. The racial wealth and homeownership gaps are growing. In fact, the Black/White racial homeownership gap – at more than a 30-percentage point difference - is larger than it was when redlining was legal. According to the U.S. Census, the homeownership rate for Whites is roughly 74.5%. Comparatively, the rate for Blacks and Latinos, is 44.1% and 49% respectively. The rate for Native Americans, Asian Americans, Hawaiian Natives, and Pacific Islanders combined is 59.5%. Our markets are not fair. They do not work for People of Color, women, and people with disabilities. Whites have 10 times the wealth of Blacks and 8 times the wealth of Latinos. Lending redlining is flourishing. Housing discrimination is still the norm in too many communities.

The bias in our markets is not a bug but a feature. They were built that way and intended to operate in a discriminatory fashion. They will continue to do so until we make systemic and cultural changes. From the inception of this nation our housing and finance policies were explicitly discriminatory. They created biased systems that still exist today – residential segregation, the dual credit market, and other unfair 9
systems. We continue to see disparities and discrimination because we have not dismantled structures of inequality.

Access to Credit

Consumers in the U.S. do not have equal or equitable access to the financial markets. Centuries of discriminatory policies, segregation, and disinvestment have led to the creation of the dual credit market in which banks and credit unions are concentrated in predominately White communities and payday lenders, check cashers, title money lenders, and other non-traditional financial services providers are concentrated in predominately Black and Latino communities.

An analysis by Trulia revealed stark disparities in where financial services are located. The research showed that Communities of Color had 35% fewer mainstream lenders than predominately White communities. Moreover, there were twice as many alternative financial institutions – like payday lenders and check cashers - in Communities of Color. This, of course, is a legacy of our nation's long history of lending redlining and discrimination. However, current practices are contributing to the growing disparity in credit access. For example, today, according to one analysis by Standards and Poors, banks are closing their branches in high-income, affluent Black neighborhoods at a higher rate than they are closing branches in low-income non-Black areas. What this means is that borrowers of color disproportionately access credit outside of the financial mainstream with payday lenders, title money lenders and other creditors who typically do not report timely payments to the credit repositories.

Today, while many policies and guidelines may not be explicitly discriminatory on their face, many generate widescale disparate outcomes based on race. For example, credit overlay policies, an over-reliance on outdated credit scoring systems and lending policies linked to debt-to-income ratios or loan-to-value ratios are all highly correlated to race and national origin and disproportionately disadvantage Latinxs, Native Americans, Blacks, and certain segments of the Asian-American and Pacific Islander populations. Algorithm-based systems, like automated underwriting systems and risk-based pricing systems, manifest and perpetuate these biases.[14]

Our current financial system relies on assessments that can unfairly lock underserved groups out of the opportunity to access credit. For example, credit scores are a requirement for automated underwriting and risk-based pricing systems and matrices.[15] Yet roughly one-third of Black and Latinx borrowers don't have credit scores[16] because they disproportionately access credit outside of the financial mainstream. 10
One of the reasons consumers of color disproportionately access credit through non-traditional credit providers (who typically do not report timely payments to the credit repositories) is because banks are sparsely located in Black and Brown communities. In fact, high-income Black neighborhoods are losing more bank branches than low-income non-Black areas.[17] An analysis by Standard & Poor found that between 2010 and 2018, majority-Black neighborhoods lost more branches than majority-White, Latinx, and Asian neighborhoods. Median household income did not help explain the pattern since majority-Black areas with median household incomes above $100,000 were as likely to not have a branch as low-income areas.[18]

However, many underserved consumers have nontraditional credit, like timely rental housing payments, or other compensating factors, like residual income, that soundly demonstrate their ability to pay a mortgage obligation. Moreover, the current system relies heavily on debt-to-income ratio requirements that disproportionately affect consumers of color. However, debt-to-income ratio requirements have

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[14] Robert Bartlett, Adair Morse, Richard Stanton, and Nancy Wallace, "Consumer-Lending Discrimination in the FinTech Era," *University of California, Berkeley*, November 2019, https://faculty.haas.berkeley.edu/morse/research/papers/discrim.pdf.

[15] "Loan-Level Price Adjustment Matrix," *Fannie Mae*, October 21, 2020, https://singlefamily.fanniemae.com/media/9391/display;
"Credit Fee in Price Matrix," *Freddie Mac*, September 24, 2020, https://guide.freddiemac.com/euf/assets/pdfs/Exhibit_19.pdf.

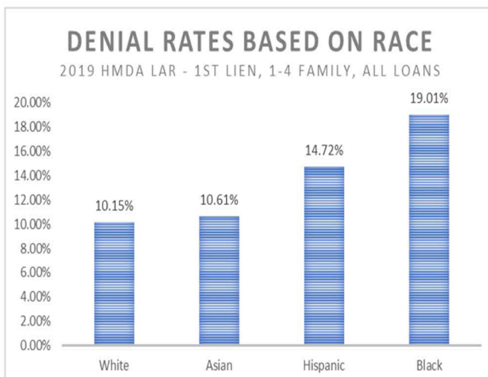
[16] Jung Hyun Choi, Alanna McCargo, Michael Neal, Laurie Goodman, and Caitlin Young, "Explaining the Black-White Homeownership Gap: A Closer Look at Disparities Across Local Markets," *Urban Institute*, October 2019, https://www.urban.org/sites/default/files/publication/101160/explaining_the_black-white_homeownership_gap_a_closer_look_at_disparities_across_local_markets_0.pdf;
"Who Are the Credit Invisibles? How to Help People with Limited Credit Histories," *Consumer Financial Protection Bureau*, December 2016, https://files.consumerfinance.gov/f/documents/201612_cfpb_credit_invisible_policy_report.pdf.

[17] Zach Fox, Zain Tariq, Liz Thomas, and Ciaralou Palicpic, "Bank Branch Closures Take Greatest Toll on Majority-Black Areas," *S&P Global*, July 25, 2019, https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/bank-branch-closures-take-greatest-toll-on-majority-black-areas-52872925.

[18] Fox, "Bank Branch Closures Take Greatest Toll on Majority-Black Areas."

been shown to be poor predictors of risk[19] – particularly for borrowers who are used to paying higher percentages of their income on rental housing payments. As a result, not only do these standards disadvantage borrowers of color, but they are also suboptimal for achieving their intended purpose of managing risk.

Because the U.S. lending and housing markets are so exclusionary, a disproportionate percentage of Black, Latinx, and Native American borrowers are turned down for mortgage credit each year. NFHA's analysis of 2019 HMDA data reveals that Black applicants are denied for mortgage loans at almost twice the rate of White applicants. Latinx consumers are denied at almost 1.5 times the rate of White applicants. These trends have persisted over decades. (See chart below.)



Source: Home Mortgage Disclosure Act Data via Compliance Tech. NFHA Calculations.

Additionally, programs designed to extend credit to businesses owned by people of color have lackluster performance. The Paycheck Protection Program developed to help businesses impacted by the COVID-19 pandemic has provided minimal benefits to companies owned by Blacks and Latinxs. The Center for Responsible Lending estimated that during the first round of the PPP program, when support for small businesses was most critical, only about 5% of Black-owned and 9% of Latinx-owned businesses would be able to access the program.[20] Its projections were borne out. One analysis revealed that a disproportionate majority of PPP loans went to businesses in majority-White communities while a

[19] "NFHA Comments on the CFPB's Advance Notice of Proposed Rulemaking for the Qualified Mortgage Definition under the Truth in Lending Act (Regulation Z)" *National Fair Housing Alliance*, September 16, 2019, https://nationalfairhousing.org/wp-content/uploads/2020/11/NFHA-QM-Comments-Final.pdf.

[20] Tommy Beer, "Minority-Owned Small Businesses Struggle to Gain Equal Access to PPP Loan Money," *Forbes*, May 18, 2020, https://www.forbes.com/sites/tommybeer/2020/05/18/minority-owned-small-businesses-struggle-to-gain-equal-access-to-ppp-loan-money/#3dff24c75de3.

disproportionately small share of loans went to those located in majority-Black or majority-Latinx areas.[21]

Additionally, borrowers of credit face discriminatory roadblocks when trying to access car loans. An investigation by the National Fair Housing Alliance revealed that consumers of color with better financial profiles than their White counterparts were more often charged higher interest rates, received more costly options, presumed to be less qualified than they actually were, taken less seriously as buyers, and were more likely to be subjected to disrespectful treatment.[22] Sales people and finance officers at the dealerships where the investigations took place were much more likely to work with White consumers to bring prices down, sometimes through breaking policies, rules, and procedures or by making an extra effort to give the White consumer better pricing.[23]

In many respects the cards are stacked against underserved borrowers. Maintaining the status quo will never provide these families and consumers with the opportunities they need and deserve to access credit or secure housing stability. While building more affordable housing is critically necessary and may help expand equal housing opportunities, increasing affordable housing units alone will not address the racial inequality gap.[24]

Increase in Asian American Violence

Since the advent of the COVID-19 pandemic, there has been a dramatic uptick in violence against Asian Americans. According to Stop AAPI Hate, from March 19, 2020 to February 28, 2021, there were 3,795 incidents of hate levied against Asian Americans. Verbal harassment made up 68.1% of the reported incidents and physical assault made up 11.1% of the cases. Of the reported incidents, 35.4% occurred at a business, 25.3% occurred on a public street or sidewalk, 10.8% occurred online, and 9.2% occurred at a residence.[25] Women were 2.3 times more likely than men to report hate incidents. Chinese Americans (42.2%) reported the lion share of cases. An analysis by the Pew Research Center reveals that 31% of Asian Americans reported being subjected to racial slurs or jokes amid the COVID pandemic.[26]

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[21] Jason Grotto, Zachary R. Midler, and Cedric Sam, "White America Got a Head Start on Small-Business Virus Relief," *Bloomberg*, July 30, 2020, https://www.bloomberg.com/graphics/2020-ppp-racial-disparity/?sref=437r7DCu&utm_source=newsletter&utm_medium=email&utm_campaign=newsletter_axiosmarkets&stream=business.

[22] Lisa Rice and Erich Schwartz, Jr., "Discrimination When Buying a Car: How the Color of Your Skin Can Affect Your Car-Shopping Experience," National Fair Housing Alliance, January 2018, https://nationalfairhousing.org/wp-content/uploads/2018/01/Discrimination-When-Buying-a-Car-FINAL-1-11-2018.pdf.

[23] Rice, "Discrimination When Buying a Car: How the Color of Your Skin Can Affect Your Car-Shopping Experience."

[24] Reprinted from blog by Lisa Rice: "Using Special Purpose Credit Programs to Expand Equality," November 4, 2020. Available at: https://nationalfairhousing.org/using-spcps-blog/

[25] Russel Jeung, Aggie Yellow Horse, Tara Popovic, and Richard Lim, "Stop AAPI Hate National Report," February, 2021. Stop AAPI Hate Coalition. Available at https://secureservercdn.net/104.238.69.231/a1w.90d.myftpupload.com/wp-content/uploads/2021/03/210312-Stop-AAPI-Hate-National-Report-.pdf

[26] Neil Ruiz, Juliana Menasce Horowitz, and Christine Tamir, "Many Black and Asian Americans Say They Have Experienced Discrimination Amid the COVID-19 Outbreak," July 1, 2020. Pew Research Center. Available at https://www.pewresearch.org/social-trends/2020/07/01/many-black-and-asian-americans-say-they-have-experienced-discrimination-amid-the-covid-19-outbreak/

When a hate incidence occurs at a person's residence, it may well invoke Fair Housing Act protections. However, most consumers are not aware of the law's protections. Most people who experience an attack only think to report the incident to law enforcement and few law enforcement agencies understand how the Fair Housing Act can help protect victims of hate crimes.

Hate crimes against Asian Americans have been particularly brutal as perpetrators appear to be buoyed by former President Trump's hate-filled rhetoric with respect to the coronavirus. In New York, a young woman was attacked when a man poured acid on her face as she was taking out her garbage. She suffered chemical burns on her face, neck, and back.

The Asian American community is calling out for help. That help must come by the Federal government stepping up efforts to educate the Asian American community about their rights under laws like the Fair Housing Act. Additionally, the government must expand resources and support for local fair housing organizations to conduct outreach and provide assistance to victims of hate crimes.

Solutions to Overcome Housing and Lending Inequity

When thinking about solutions to overcome housing and lending discrimination and systemic barriers to opportunity, we must consider the extensive resources this nation has invested in creating a deeply inequitable society. Thousands of laws, ordinances, and policies have been passed that were either explicitly race-based - such as the Indian Removal Act, the Chinese Exclusion Act, the Black Codes, and Jim Crow laws - or that were implemented with racialized policies – such as the Housing Act, the Social Security Act, the Federal Aid Highway Act, and the Home Owners Loan Corporation Act. This nation has spent hundreds of trillions of dollars implementing unfair policies, through a racialized lens, which created the deep-seated racial inequality we see today manifested in housing, lending, health, employment, wealth, and other outcomes.

While we have passed civil rights laws designed to stop discriminatory actions and create a fairer society, we have never fully enforced those statutes. Instead, legislators and special interest groups have spent enormous resources chipping away at civil and human rights protections. The last four years of unprecedented attacks on fair housing, fair lending, and other civil rights protections by the Trump administration are a testament to that.

What is more, when civil rights laws were passed, they did not include comprehensive provisions to dismantle the structures of inequality that had been put in place. There is no mechanism in our laws to deconstruct the dual credit market. There is no comprehensive strategic system for dismantling school segregation. Our laws hold no systematic way to undo systemic residential segregation or exclusionary zoning ordinances that were passed years ago create and maintain a separate and unequal landscape throughout this country.

The only real provision for creating well-resourced, fully-invested, inclusive neighborhoods is the Affirmatively Furthering Fair Housing provision of the Fair Housing Act. But this provision of the law does not offer any private right of action and must be achieved through voluntary compliance. One mechanism for enforcing the AFFH provision was established via the 2015 AFFH Rule promulgated by HUD. However, that rule was summarily overridden by the Trump administration and replaced in 2020 by a toothless rule that does nothing to advance fair housing goals. In fact, the 2020 "Preserving

Community and Neighborhood Choice" rule[27] cannot even seriously be considered as a fair housing rule. The other mechanism for implementing the Affirmatively Furthering Fair Housing provision was through the establishment of the President's Fair Housing Council. However, the Council has not been operational in over 20 years.[28]

The inability to stop discrimination and overhaul unfair systems is crippling this nation. It has not only impeded our economic progress and productivity, but it has harmed countless millions resulting in mental, physical, social, and economic duress. Housing discrimination and segregation are literally killing people. This point could not be clearer when the devastating impacts of the COVID-19 pandemic are considered as Communities of Color are dying at inordinately high rates.

Creating a fair, just and equitable society is critically important for the millions of people in this nation who lack access to viable opportunities to lead successful lives. But it is also imperative for our collective progress as a nation. Groundbreaking research has revealed that if we eliminated racial inequality, the U.S. GDP would increase by $5 trillion over a 5-year period. Instead of directing energy and resources to restricting people's ability to access opportunity, we should be expanding people's access to critical amenities. Doing so would strengthen our neighborhoods, communities, and the broader society and position us in a better position to compete on a global level. Our diversity, it turns out, is our strength. Access to opportunity is not a Zero-sum game. Rather, broadening opportunity provides exponential benefits to everyone.

To address the massive disparities rooted in the nation's history of racism, the persistence of residential and school segregation, overcome the harms of the dual credit market, compensate for existing restrictive zoning policies and if we are going to be serious about eliminating all forms of housing discrimination and creating a truly equitable society, we must do the following:

1) Fully enforce and strengthen anti-discrimination laws – Laws like the Fair Housing Act, Equal Credit Opportunity Act, Community Reinvestment Act, Home Mortgage Disclosure Act, Dodd Frank Consumer Reform and Protection Act, and other civil rights statutes have gone a long way to advancing justice for marginalized and underserved groups. However, these laws cannot stand up to the bevy of statutes passed over the centuries that created systemic injustice in the U.S. We must adopt additional laws, and in some cases strengthen existing statutes, to provide full protections to people in order to stop discrimination, fully compensate victims for the harms they have suffered, dismantle unfair structures, and create new, equitable systems that advance opportunity.

2) Dismantle structural barriers that create and perpetuate bias and replace them with systems that are fair and equitable – U.S. systems are deeply inequitable and both private market players and government must be aligned in deconstructing unfair systems and bringing on board unbiased structures that provide access to a full range of housing and financial services that have been too long denied to people.

3) Invest in underserved communities to address and correct the iniquities of the past – If things are left as is, marginalized communities will never reach parity with Whites – never. No amount of bootstrap-

[27] See 85 FR 47899.

[28] Executive Order 12892—Leadership and Coordination of Fair Housing in Federal Programs: Affirmatively Furthering Fair Housing, January 17, 1994. Available at https://www.govinfo.gov/content/pkg/WCPD-1994-01-24/pdf/WCPD-1994-01-24-Pg110.pdf

lifting will take the place of centuries of harmful disinvestment and equity-stripping. The only way to properly compensate communities that have been denied wealth-building opportunities is to heavily invest in these communities. A comprehensive infrastructure bill that includes strong support for housing is paramount. The bill must include both demand and supply side provisions.

4) Change our culture - We do not have an inequitable society because we adopted policies and practices with the intent of providing fair opportunities for all. We are a deeply biased society because we expressly wanted to create benefits for some and deprive others. We have unfair systems by design, not be accident. If we want to have a society in which everyone has fair access to the benefits and resources this nation holds, we must be intentional about that as well. The bias in our markets are not a bug but a feature. They were built that way and intended to operate in a discriminatory fashion. They'll continue to do so until we make systemic and cultural changes. This change may be uncomfortable, but it is necessary in order to move the nation forward.

To view a more detailed list of the actions that we must undertake post haste to realize housing and lending equity, see the National Fair Housing Alliance's list of priorities for the Biden-Harris Administration.

Priorities for the Biden Administration and 117th Congress

Infrastructure Bill

It is imperative that the infrastructure bill include comprehensive housing provisions that address both supply side and demand side issues. NFHA champions the subsuming of the following bills in the American Jobs Plan: 15

- Neighborhood Homes Investment Act
- Restoring Communities Left Behind Act
- National Land Bank Network Act
- Housing Supply and Affordability Act
- REHAB Act
- Complete Streets Act

NFHA also strongly advocates applying the Affirmatively Furthering Fair Housing mandate to the entirety of the infrastructure bill. The only way we will achieve housing equity is by recognizing the inextricable link between infrastructure and housing. The two are interconnected. Housing is infrastructure. In the past, infrastructure bills were used to create and perpetuate housing segregation and other housing-related inequalities. This infrastructure bill is a ripe opportunity to correct those errors of the past.

Moreover, NFHA strongly advocates including a strong downpayment assistance provision into the infrastructure bill that includes a set-aside for socially and/or economically disadvantaged groups building off of the design of similar programs in USDA, Small Business Administration, and Transportation.

PREPARED STATEMENT OF JASON REECE

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APRIL 13, 2021

Testimony of Jason Reece, PhD.

Assistant Professor, City & Regional Planning Section, Knowlton School of Architecture and Faculty Affiliate, The Kirwan Institute for the Study of Race & Ethnicity, The Ohio State University

Before the Senate Committee on Banking, Housing, and Urban Affairs

"Separate and Unequal: The Legacy of Racial Discrimination in Housing"

April 13th 2021

Chairman Brown, Ranking Member Toomey, and members of the Committee, thank you for the opportunity to testify today on the legacy of racial discrimination in Housing. I commend you for hosting a hearing on this important topic and elevating the issue of housing equality as a top priority of this committee during the 117th Congress. I am an Assistant Professor of City & Regional Planning in the Knowlton School at The Ohio State University. I was the former Associate Director and Director of Research for the Kirwan Institute for the Study of Race & Ethnicity. My teaching, research and scholarship are focused on land use, housing and community development policy. More specifically my research has sought to understand the history and consequences of discrimination in housing and development. Scholars have long recognized the role of city & regional planning history in understanding contemporary civil rights issues in housing, particularly for the African American community.[1] My testimony is focused on the following topics. The historical and contemporary public and private sector actions and policies that fostered segregation in housing, the consequences on historical and contemporary discrimination on individuals and communities and the potential policy solutions which could remedy this ongoing societal challenge.

The rise of racial and ethnic segregation and isolation into unhealthy and resource deprived neighborhoods.

Racial and ethnic residential segregation would increase substantially in the early and mid-20th century. Rates of residential racial segregation for the African American community would nearly double between 1880 and 1940.[2] Increased residential segregation would also occur for certain immigrant populations and other racial and ethnic groups during this time. In contrast to the African American community, segregation among many "white ethnic" populations and other racial groups began to decline after 1920.[3] Segregation in the African American community would continue to increase before peaking in 1970.[4] Since 1970 African American segregation has gradually declined as civil rights reforms enabled greater access in the housing market.[5]

The decline in African American segregation demonstrates progress stemming from the civil

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[1] Thomas, June Manning. "Planning history and the black urban experience: Linkages and contemporary implications." *Journal of Planning Education and Research* 14, no. 1 (1994): 1-11.
[2] Logan, Trevon D., and John M. Parman. "The National Rise in Residential Segregation." *The Journal of Economic History* 77, no. 1 (2017): 127–70. doi:10.1017/S0022050717000079.
[3] Eriksson, Katherine, and Zachary Ward. "The Residential Segregation of Immigrants in the United States from 1850 to 1940." *The Journal of Economic History* 79, no. 4 (2019): 989–1026. doi:10.1017/S0022050719000536.
[4] Logan, John R. "The Persistence of Segregation in the 21st Century Metropolis." *City & Community* 12, no. 2 (2013): 160–168.
[5] Logan, John R, and Brian J Stults. "The Persistence of Segregation in the Metropolis: New Findings from the 2010 Census." Census Brief Prepared for Project US2010 24 (2011).

rights movement toward an integrated housing market.[6] Unfortunately the slow pace of declining segregation (the dissimilarity index for African American/White segregation is declining at a rate of 7% per decade) will require decades to reach comparable rates of segregation for other racial and ethnic groups. For example, if African American/White segregation continues declining at its current pace, it would not reach the current degree of segregation (as measured by the dissimilarity index) experienced by the Latinx community until 2030. Reaching the current degree of segregation experienced by the Asian community (as measured by the dissimilarity index) would not occur until after 2050.

Declining dissimilarity rates also mask the persistent segregation facing lower income racial and ethnic households. Racial and economic segregation are intertwined in the contemporary housing market and measures of economic segregation, such as the number of Americans living in extremely high poverty census tracts (those with at least a 40% poverty rate) has doubled between 2000 and 2014.[7]

Declining dissimilarity rates also do not necessarily indicate that racial and ethnic groups are living in better neighborhood environments. [8] Segregation for lower income racial and ethnic populations often correlates with isolation into neighborhoods that lack critical opportunity structures, such as strong schools, safe or healthy environments and economic resources.[9] Research by the Diversity Data Kids initiative at Brandeis University has found African American and Latinx children are disproportionately isolated into "very low opportunity" neighborhoods (**Figures 1 & 2**).[10]

Their analysis of the 100 largest metropolitan areas finds that when ranking neighborhoods based on 29 indicators of neighborhood wellbeing, the lowest ranking neighborhoods (representing 20% of all neighborhoods) contain 46% of all African American children and 33% of all Latinx children. African American (66%) and Latinx (50%) children in poverty are even more likely to be isolated into the lowest opportunity neighborhoods. In comparison, fewer than 10% of White children and 20% of White children in poverty are in "very low" opportunity neighborhoods.

Residential segregation is the result of both societal and government actions that have evolved over the course of the 20th century.

The historian Carl Nightingale at the University of Buffalo has described the phenomena of residential segregation as requiring "institutionally organized human intentionality."[11] Historians and scholars have documented a systemic arrangement of policies and practices

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[6] Frey, William. "Black-White segregation edges downward since 2000, Census shows." *The Brookings Institute: The Avenue*. December 18, 2018, https://www.brookings.edu/blog/the-avenue/2018/12/17/black-white-segregation-edges-downward-since-2000-census-shows/

[7] Kneebone, Elizabeth, and N Holmes. "Concentrated Poverty in the Wake of the Great Recession." Brookings. Available at: Https://www. Brookings. Edu/research/us-Concentrated-Poverty-in-Thewake-of-the-Great-Recession, 2016.

[8] Acevedo-Garcia, Dolores, Nancy McArdle, Erin F. Hardy, Unda Ioana Crisan, Bethany Romano, David Norris, Mikyung Baek, and Jason Reece. "The Child Opportunity Index: Improving Collaboration between Community Development and Public Health." *Health Affairs (Project Hope)* 33, no. 11 (November 2014): 1948–57. https://doi.org/10.1377/hlthaff.2014.0679.

[9] Massey, Douglas S. "Residential segregation and neighborhood conditions in US metropolitan areas." *America becoming: Racial trends and their consequences* 1, no. 1 (2001): 391-434.

[10] Acevedo-Garcia, Dolores, Clemens Noelke, Nancy McArdle, Nomi Sofer, Erin F. Hardy, Michelle Weiner, Mikyung Baek, Nick Huntington, Rebecca Huber, and Jason Reece. "Racial And Ethnic Inequities In Children's Neighborhoods: Evidence From The New Child Opportunity Index 2.0." *Health Affairs* 39, no. 10 (2020): 1693-1701.

[11] Nightingale, Carl H. *Segregation: A Global History of Divided Cities.* University of Chicago Press, 2012. Pg. 7.

throughout the 20th century, by both the private and public sector, that enforced segregation upon housing markets, particularly in metropolitan areas (**Figure 3**). Public sector policies enforced and encouraged segregation at both the local and federal level. As Richard Rothstein has documented in *The Color of Law*, the interwoven and reinforcing nature of private sector and public sector segregation is a manifestation of structural racism in our 20th century housing markets and cities, that has never truly been remedied.[12]

Race and Early Zoning-

Leland Ware, professor of law and public policy at the University of Delaware, has traced the expansion of the "separate but equal" doctrine in *Plessy v. Ferguson* to many facets of society. Ware finds that although *Plessy* did not directly apply to housing policy it did "legitimize the laws, customs, and practices that established" residential separation.[13] Zoning would be one of the primary tools in the early 20th century to racially segregate housing and neighborhoods. Zoning was a critical development for regulating density, land use mix and potential nuisances. Zoning was effective and beneficial in remedying many of the significant health risks associated with early 20th century urbanization.[14] Zoning was first implemented in Germany before migrating to the United States in the early 1900's. Unlike its European implementation, in its translation into the American land use regulatory system, zoning would become focused on social control.[15,16]

Racial zoning expanded spatial planning to encompass the racial makeup of neighborhoods. Racial zoning was motivated by racist beliefs that racial integration within neighborhoods was a threat to public health, safety and welfare. The practice was also justified on the grounds of preventing the spread of disease, interracial marriage and miscegenation.[17] Racial zoning was first implemented in Baltimore in 1910 and would quickly spread to other cities throughout the United States, particularly in the Mid-Atlantic and South.[18] The practice would be struck down by the U.S. Supreme Court as unconstitutional in the 1917 *Buchanan v. Warley* decision but policies and practices would evolve to utilize facially race neutral zoning, comprehensive planning and restrictive covenants to enforce segregation.[19]

From Racial Zoning to Restrictive Covenants-

Without the ability to utilize racial zoning, local city governments and the real estate sector would embrace racially restrictive covenants to racially segregate neighborhoods. Restrictive covenants are a form of deed restriction which prohibited the sale of property to, or occupancy of property by, a number of racial and ethnic groups. These restrictions either required

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[12] Rothstein, Richard. *The Color of Law: A Forgotten History of How Our Government Segregated America.* Liveright Publishing, 2017.

[13] Ware, Leland. "Plessy's Legacy: The Government's Role in the Development and Perpetuation of Segregated Neighborhoods." RSF: The Russell Sage Foundation Journal of the Social Sciences 7, no. 1 (2021): 92-109. Accessed April 7, 2021. doi:10.7758/rsf.2021.7.1.06. Quoting page 92.

[14] Peterson, Jon A., and Jon A. Peterson. The birth of city planning in the United States, 1840–1917. JHU Press, 2003.

[15] Richards, J. Gregory. "Zoning for direct social control." *Duke LJ* (1982): 761.

[16] Von Hoffman, Alexander. "Housing and planning: A century of social reform and local power." *Journal of the American Planning Association* 75, no. 2 (2009): 231-244.

[17] Nightingale, Carl H. "The Transnational Contexts of Early Twentieth-Century American Urban Segregation." *Journal of Social History* 39, no. 3 (2006): 667-702. http://www.jstor.org/stable/3790284.

[18] Silver, Christopher. "The racial origins of zoning: Southern cities from 1910–40." *Planning Perspective* 6, no. 2 (1991): 189-205.

[19] Bernstein, David E. "Philip Sober Controlling Philip Drunk: Buchanan v. Warley in Historical Perspective." *Vand. L. Rev.* 51 (1998): 797.

occupancy by or sale to the "Caucasian" or "White race" or specifically prohibited sales to or occupancy by African Americans, Asian or Latinx Americans, Jewish Americans and some ethnic immigrants. Deed restrictions were often placed on new residential subdivisions that would emerge as early suburbs in U.S. urban areas. It is estimated that half of all new subdivisions platted before 1948 had racially restrictive covenants.[20] For example, in the City of Columbus, OH two-thirds of all new subdivisions platted between 1920 and the second World War were racially restricted.[21]

Covenants were upheld, propagated and enforced by both the public and private sector. The U.S. Supreme Court had an opportunity to strike down restrictive covenants as unconstitutional in the 1926 *Corrigan v Buckley* decision. The court interpreted covenants as private contracts and therefore not under the jurisdiction of the court.[22] Scholars have identified the case as critical to the rapid growth and expansion of covenants across the nation.[23]

The private sector contributed to the proliferation of covenants through the actions of real estate developers who attached covenants to new subdivisions and utilized covenants as a real estate marketing tool to assure buyers properties would remain segregated.[24,25] The relatively young National Association of Realtors (referred to as the National Association of Real Estate Boards at the time) would integrate pro segregation language into realtor training materials and the organization's code of ethics. The association's 1924 code of ethics stated "***A Realtor should never be instrumental in introducing into a neighborhood a character of property or occupancy, members of any race or nationality, or any individuals whose presence will clearly be detrimental to property values in that neighborhood.***"[26] More predatory real estate practices, such as manipulative blockbusting, would further heighten the pace of segregation in urban areas.[27]

The Emergence of Exclusionary and Expulsive Zoning-

Although racial zoning was struck down by the U.S. Supreme Court, facially race neutral zoning would still be used to heighten patterns of segregation and to harm racial and ethnic neighborhoods.[28] Zoning could still exclude by class by placing restrictions on higher density housing, multi-family housing or rental housing. Expulsive zoning practices would target the placement of noxious land uses into lower income and racially segregated neighborhoods.

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[20] Gotham, Kevin Fox. "Urban space, restrictive covenants and the origins of racial residential segregation in a US city, 1900–50." *International Journal of Urban and Regional Research* 24, no. 3 (2000): 616-633.

[21] Burgess, Patricia. *Planning for the private interest: Land use controls and residential patterns in Columbus, Ohio, 1900-1970*. Ohio State University Press, 1994.

[22] *Corrigan v. Buckley*, 271 U.S. 323 (1926)

[23] Jones-Correa, Michael. "The Origins and Diffusion of Racial Restrictive Covenants." *Political Science Quarterly* 115, no. 4 (2000): 541-68. doi:10.2307/2657609.

[24] Burgess, Patricia. *Planning for the private interest: Land use controls and residential patterns in Columbus, Ohio, 1900-1970*. Ohio State University Press, 1994.

[25] Glotzer, Paige. "Exclusion in Arcadia: How Suburban Developers Circulated Ideas about Discrimination, 1890–1950." *Journal of Urban History* 41, no. 3 (May 2015): 479–94. https://doi.org/10.1177/0096144214566964.

[26] National Association of Real Estate Boards. 1924 Code of Ethics. Accessed from the National Association of Realtors: https://www.nar.realtor/about-nar/history/1924-code-of-ethics. Quoting article 34, page 7.

[27] Gotham, Kevin Fox. "Beyond Invasion and Succession: School Segregation, Real Estate Blockbusting, and the Political Economy of Neighborhood Racial Transition." *City & Community* 1, no. 1 (March 2002): 83–111. https://doi.org/10.1111/1540-6040.00009.

[28] Whittemore, Andrew H. "The experience of racial and ethnic minorities with zoning in the United States." *Journal of Planning Literature* 32, no. 1 (2017): 16-27.

This practice would deteriorate neighborhood conditions, create environmental hazards and lower property values for homeowners.[29] Expulsive zoning practice has been identified as a primary driver of contemporary environmental justice challenges in racially segregated urban neighborhoods.[30]

Real Estate Assessment and Racism – The Era of Redlining Emerges

The existing patterns of segregation created by covenants, real estate practices and zoning restrictions would be reinforced by redlining practices and housing policies emerging from the New Deal. The Home Owners Loan Corporation (HOLC) was created in response to escalating foreclosures during the depression, the agency played a critical role in the early 1930's in refinancing loans and by 1935 HOLC held nearly one fifth of all mortgage debt for 1 to 4 family homes.[31]

HOLC played a larger role in city planning history in the establishment of real estate risk assessment maps created by the agency throughout the 1930's. These risk assessment maps created four tiers of ratings, with grades A and B, generally deemed safe for investment. Grades C and D rated unsafe or hazardous for investment. The red color pallet utilized to demonstrate "hazardous" conditions in D rated neighborhoods is the origin of the term redlining. Although the origin of the term redlining relates to HOLC's original maps, redlining is commonly utilized to refer to the practice of strategic disinvestment targeted to racially segregated neighborhoods.

HOLC ratings were clearly driven by racial animus and influenced the FHA's chief economist Homer Hoyt's theories of racial hierarchy in real estate valuation. Hoyt created a ten-level ranking of racial and ethnic groups, placing southern Italians, African Americans and Mexican Americans at the bottom of his hierarchy, identifying them as most detrimental to real estate values.[32] The influence of theories of white supremacy in real estate are evident in the structure of the assessment notes. Assessment documents allocated fields for identifying threats of "infiltration" of detrimental populations and assessor notes are riddled with references to racial animus.

For example, my content analysis of all available assessment documents for Ohio's cities found references to social, racial and ethnic populations to be the dominant text content within the assessments. Assessment statements across Ohio's various cities demonstrate the depth of racism, anti-Semitism and xenophobia in assessment documents. Additionally, assessments also were tied to previous patterns of racially restrictive covenants. The highest rated (A) neighborhoods often emphasized the residency "restrictions" as a positive factor in neighborhoods privileged by the assessors.[33]

From Redlining to Urban Renewal and Segregated Suburbs-

Although HOLC was a relatively short-lived entity, the maps were influential in influencing

[29] Whittemore, Andrew H. "Racial and class bias in zoning: Rezonings involving heavy commercial and industrial land use in Durham (NC), 1945–2014." *Journal of the American Planning Association* 83, no. 3 (2017): 235-248.
[30] Wilson, Sacoby, Malo Hutson, and Mahasin Mujahid. "How planning and zoning contribute to inequitable development, neighborhood health, and environmental injustice." *Environmental Justice* 1, no. 4 (2008): 211-216.
[31] Faber, Jacob W. "We Built This: Consequences of New Deal Era Intervention in America's Racial Geography." American Sociological Review 85, no. 5 (2020): 739-775. Quoting page 4.
[32] Squires, Gregory D., ed. *The fight for fair housing: Causes, consequences, and future implications of the 1968 Federal Fair Housing Act*. Routledge, 2017.
[33] Reece, J.W. Defining Space, Defining the Other, Constructing Structural Racism:
Content Analysis of HOLC Assessor Documents in 12 Ohio Cities. Society of American City & Regional Planning History Conference. Lecture conducted from Washington, D.C. USA. (2019).

other federal programs. As described by NYU Professor of Public Policy Jacob Faber "*the historical record documents that HOLC's practices of racial exclusion were adopted by subsequent federal programs (the Federal Housing Administration & GI Bill), which were larger and more durable.*"[34] HOLC maps were not officially published, but they were shared with the FHA and were likely used to influence local lenders, local governments and planners. As described by Faber "*Thus, what HOLC ostensibly intended to be a short-term intervention may have resulted in quite a "strong" institutional mechanism due to its diffusion through and adoption by long term programs, with dramatic implications for segregation over subsequent decades.*"[35]

Redlining of urban neighborhoods would produce decades of divestment, while FHA guidelines mandated racial separation of ""inharmonious racial or nationality groups" in the rapidly growing post WWII suburbs.[36] FHA guidelines would also influence exclusionary zoning by placing emphasis on the land use characteristics of single family suburban development in the agency's site standards.[37] African American veterans were also less likely to be able to benefit from the GI bill, limiting another potential pathway to homeownership.[38]

Barred from access to the nation's rapidly expanding suburbs, communities of color were isolated to redlined neighborhoods, experiencing substantial disinvestment.[39] Post war policies such as urban renewal and the federal highway act would further damage redlined urban neighborhoods, causing widespread disruption and displacement.[40] Urban renewal programs would disproportionately displace African American and Latinx families.[41] Urban highway construction would create further displacement and highway projects were often sited in or through formerly redlined neighborhoods.[42] Segregation in Post WWII public housing policies created a more intense form of segregation and unprecedented concentrated poverty. Many high-rise public housing sites never managed to sustainably finance their operations, resulting in challenging and unsafe housing conditions.[43]

Landmark Civil rights legislation, such as the Civil Rights Act of 1968, also known as the Fair Housing Act, have helped open housing markets, but segregation persists due to evolving

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[34] Faber, Jacob W. "We Built This: Consequences of New Deal Era Intervention in America's Racial Geography." American Sociological Review 85, no. 5 (2020): 739-775. Quoting page 4.

[35] Faber, Jacob W. "We Built This: Consequences of New Deal Era Intervention in America's Racial Geography." American Sociological Review 85, no. 5 (2020): 739-775. Quoting page 4.

[36] Tillotson, Amanda. "Race, risk and real estate: The federal housing administration and black homeownership in the post World War II home ownership state." *DePaul J. Soc. Just.* 8 (2014): 25.

[37] Whittemore, Andrew H. "How the Federal Government Zoned America: The Federal Housing Administration and Zoning." *Journal of Urban History* 39, no. 4 (July 2013): 620–42. https://doi.org/10.1177/0096144212470245.

[38] Louis Lee Woods II. "ALMOST "NO NEGRO VETERAN ... COULD GET A LOAN": AFRICAN AMERICANS, THE GI BILL, AND THE NAACP CAMPAIGN AGAINST RESIDENTIAL SEGREGATION, 1917–1960." *The Journal of African American History* 98, no. 3 (2013): 392-417. Accessed April 9, 2021. doi:10.5323/jafriamerhist.98.3.0392.

[39] Reece, J. W. (2018). In pursuit of a twenty-first century just city: The evolution of equity planning theory and practice. *Journal of Planning Literature*, *33*(3), 299-309.

[40] Bullard, Robert Doyle, Glenn Steve Johnson, and Angel O. Torres, eds. *Highway robbery: Transportation racism & new routes to equity*. South End Press, 2004.

[41] Digital Scholarship Lab, "Renewing Inequality," *American Panorama*, ed. Robert K. Nelson and Edward L. Ayers, accessed April 9, 2021, https://dsl.richmond.edu/panorama/renewal/#view=0/0/1&viz=scatterplot.

[42] Thompson, E. "How highways destroyed Black neighborhoods in the 60's, as told by elders who were there." The Columbus Dispatch. December 3, 2020. Accessible at: https://www.dispatch.com/in-depth/lifestyle/2020/12/03/black-columbus-ohio-homes-impact-highways-east-side/3629685001/

[43] Bristol, K. G. (1991). The pruitt-igoe myth. *Journal of Architectural Education*, *44*(3), 163-171.

policies and practices that continue to reinforce discrimination.[44] Although racially restrictive covenants were no longer enforceable after the 1948 *Shelley v. Kramer* U.S. Supreme Court decision, the real estate industry and neighborhood associations resisted efforts of integration until the passage of the 1968 fair housing act.[45] The federal Fair Housing Act has been effective at reducing private discrimination in the market but has been unable to counter exclusionary zoning practices. Exclusionary housing and land use policies impede the supply of affordable- and sometimes moderate-income housing in affluent metropolitan suburbs and exurbs. [46] Source of income discrimination, where landlords refuse to rent to housing voucher holders, creates barriers to housing access for renters who utilize federal housing assistance.[47] Market driven urban redevelopment, which has grown substantially in the past two decades, is dominated by higher priced or luxury housing and in some cases is spurring displacement of long term residents.[48] Stagnation in wages for low to middle income workers has created tremendous vulnerability to displacement in the real estate market.[49]

The legacy of discrimination identified in the abbreviated history above has a direct impact on challenges facing the housing sector, cities and our society today. Racial equity has been a prominent issue from the past year, seen in the disparate impacts of COVID-19 in communities of color, and fears of rising evictions, as well as 2020's summer of urban unrest. The role of historic housing discrimination in perpetuating racial inequality is fundamental to these contemporary challenges.

A growing body of research has documented a variety of damaging long-term consequences of structural racism in the housing market and the built environment.

The legacy of structural racism in the housing market and built environment has been linked to depressed wealth, health and housing outcomes for marginalized communities. Scholarship has long recognized the influence of housing discrimination on wealth building for marginalized racial and ethnic groups. Recent advances in digitizing former HOLC redlining maps have allowed spatial analysis of the long-term impacts of redlining and other forms of discrimination in housing on current neighborhood conditions.[50] HOLC maps are a window into which communities faced the most intense forms of discrimination in housing and development. Thus, redlining maps present a coherent view of the geography of spatial and racial discrimination in the 20th century.

Wealth Impacts:

Housing discrimination and redlining is responsible for the racial wealth gap.[51] Home equity is a primary source of wealth for Americans. The Census Bureau reports that home equity

[44] Cashin, Sheryll. *The Failures of Integration: How Race and Class Are Undermining the American Dream*. Vol. 3. 24. PublicAffairs New York, NY, 2004.
[45] *Shelley v. Kraemer*, 334 U.S. 1 (1948).
[46] Greene, S., & Ellen, I. G. Breaking Barriers, Boosting Supply. Urban Institute, 23. (2020).
[47] Tighe, J. Rosie, Megan E. Hatch, and Joseph Mead. "Source of income discrimination and fair housing policy." *Journal of Planning Literature* 32, no. 1 (2017): 3-15.
[48] Immergluck, Dan, and Tharunya Balan. "Sustainable for whom? Green urban development, environmental gentrification, and the Atlanta Beltline." *Urban Geography* 39, no. 4 (2018): 546-562.
[49] Chapple, Karen. "Income inequality and urban displacement: the new gentrification." In *New Labor Forum*, vol. 26, no. 1, pp. 84-93. Sage CA: Los Angeles, CA: SAGE Publications, 2017.
[50] The University of Richmond's *Mapping Inequality* interactive data archive of digital HOLC maps and assessor notes was instrumental in expanding geospatial research on the geographies of HOLC assessments. For more information: https://dsl.richmond.edu/panorama/redlining
[51] Conley, Dalton. *Being Black, Living in the Red: Race, Wealth, and Social Policy in America*. Univ of California Press, 2010.

constitutes 29% of all household wealth in the US.[52] Home equity is an even more important source of wealth for low- and middle-income households. The Pew Research Center reports that low- and middle-income households have nearly half of their assets tied to home equity.[53] The barriers to homeownership in growing suburban areas and the disinvestment spurred by redlining are direct contributors to the racial wealth gap.[54] Federal policies to expand homeownership after the New Deal and second World War were critical to wealth building for the White middle class.[55,56] Communities of color were not able to benefit from expanded homeownership and were more likely be isolated into neighborhoods where home values were suppressed from redlining practices. As a result, in 2016 the median net worth of White households ($171,000) was more than 900% higher than the median net worth of African American ($17,600) and Latinx households ($20,700).[57]

The Geography of Redlining and Contemporary Neighborhood Disparities:

Research by the National Community Reinvestment Coalition finds that formerly redlined neighborhoods are predominately low income today. Their analysis found that 74% of formerly "D" rated neighborhoods were still low to moderate income in 2016.[58] Analysis by Aaronson et al. measuring the long-run effects of HOLC designations on contemporary socioeconomic outcomes finds 1930's HOLC ratings to have a large and statistically significant causal effect, particularly on children who grew up in formerly redlined areas in the 1980's and 1990's.[59] Their analysis indicates that children who grew up in redlined areas had an 11 percent probability of reaching the top quintile of household incomes as adults. In comparison, the probability of children growing up in green lined areas reaching the top quintile of household incomes was 23%. Contemporary Equifax credit scores were 10% higher in "green lined" communities compared to redlined areas, and the probability of borrowers having subprime credit scores (lower than 650) was nearly 3 times as likely as contemporary borrowers in green lined areas.

Studies have demonstrated the long-term impacts of redlining on many contemporary housing and built environment conditions.[60] Historic patterns of redlining have been associated with

[52] Eggleston, J., Hays, D., Munk, R. and Sullican, B. "The Wealth of Households: 2017." The U.S. Census Bureau: Current Population Reports. August 2020.

[53] Pew Research Center. "Fewer, Poorer, Gloomier: The Lost Decade of the Middle Class." Pew Social and Demographic Trends. August 2012.

[54] Shapiro, Thomas M, and others. *The Hidden Cost of Being African American: How Wealth Perpetuates Inequality*. Oxford University Press, USA, 2004.

[55] McIntosh, Kriston, Emily Moss, Ryan Nunn, and Jay Shambaugh. "Examining the Black-white wealth gap." *Washington DC: Brooking Institutes* (2020).

[56] Katznelson, Ira. *When affirmative action was white: An untold history of racial inequality in twentieth-century America*. WW Norton & Company, 2005.

[57] Dettling, Lisa J., Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, and Jeffrey P. Thompson (2017). "Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, September 27, 2017, https://doi.org/10.17016/2380-7172.2083.

[58] Mitchell, B. & Franco, J. "HOLC Redlining Maps: The Persistent Structure of Segregation And Economic Inequality." National Community Reinvestment Coalition. (2018). Accessible at: https://ncrc.org/holc/

[59] Aaronson, Daniel, Jacob Faber, Daniel Hartley, Bhashkar Mazumder, and Patrick Sharkey. "The long-run effects of the 1930s HOLC "redlining" maps on place-based measures of economic opportunity and socioeconomic success." *Regional Science and Urban Economics* 86 (2021): 103622.

[60] An, Brian, Anthony W. Orlando, and Seva Rodnyansky. "The physical legacy of racism: How redlining cemented the modern built environment." *Available at SSRN 3500612* (2019).

increased risk for predatory lending and foreclosure during the 2008 housing crisis.[61] Redlining is identified as contributing to the growth of slum lords, predatory creditors and increased crime in historically redlined areas.[62] Studies have documented the relationship between historic redlining, contemporary social vulnerability and gun violence.[63] New studies emerging from public health indicates historic redlining can be linked to contemporary health outcomes[64], elevated unhealthy heat events[65] and inequities in access to green space.[66] Redlining has been empirically linked to contemporary poor health outcomes such as preterm birth[67], cancer[68], and infant mortality.[69]

Visualizing the Impact of Historical Discrimination: Cleveland, OH as a Case

As I document in a special issue of the Russell Sage Foundation's Journal of the Social Sciences "Confronting the Legacy of Separate but Equal", a planning process led by Cuyahoga County's public health agency identified a number of long term correlations between formerly redlined areas and contemporary social, environmental and health challenges in the Cleveland area (Figures 4-9).[70] As described in my publication:

"In Cleveland, formerly redlined areas were still highly segregated; two in three African Americans in Cuyahoga County lived in these communities versus only one in four Whites. The segregative effects of the HOLC assessment have also had implications for housing and health outcomes. One of the more startling findings was that foreclosures and subprime lending activities were heavily concentrated in neighborhoods that were redlined in the 1940 HOLC map. In fact, between 2004 and 2007, the high-cost loan rate was 54.1 percent in formerly redlined areas versus only 15.4 percent in A-rated areas. Similar disparities existed in rates of vacant property found. Critical environmental and public health concerns, such as

[61] Hernandez, Jesus. "Redlining revisited: mortgage lending patterns in Sacramento 1930–2004." *International Journal of Urban and Regional Research* 33, no. 2 (2009): 291-313.

[62] Aalbers, Manuel B. "'When the banks withdraw, slum landlords take over': The structuration of neighbourhood decline through redlining, drug dealing, speculation and immigrant exploitation." *Urban Studies* 43, no. 7 (2006): 1061-1086

[63] Benns, Matthew, Matthew Ruther, Nicholas Nash, Matthew Bozeman, Brian Harbrecht, and Keith Miller. "The impact of historical racism on modern gun violence: Redlining in the city of Louisville, KY." *Injury* 51, no. 10 (2020): 2192-2198.

[64] McClure, Elizabeth, Lydia Feinstein, Evette Cordoba, Christian Douglas, Michael Emch, Whitney Robinson, Sandro Galea, and Allison E. Aiello. "The legacy of redlining in the effect of foreclosures on Detroit residents' self-rated health." *Health & place* 55 (2019): 9-19.

[65] Wilson, Bev. "Urban Heat Management and the Legacy of Redlining." *Journal of the American Planning Association* 86, no. 4 (2020): 443-457.

[66] Nardone, Anthony, Kara E. Rudolph, Rachel Morello-Frosch, and Joan A. Casey. "Redlines and greenspace: the relationship between historical redlining and 2010 greenspace across the United States." *Environmental health perspectives* 129, no. 1 (2021): 017006.

[67] Krieger, Nancy, Gretchen Van Wye, Mary Huynh, Pamela D. Waterman, Gil Maduro, Wenhui Li, R. Charon Gwynn, Oxiris Barbot, and Mary T. Bassett. "Structural racism, historical redlining, and risk of preterm birth in New York City, 2013–2017." *American journal of public health* 110, no. 7 (2020): 1046-1053.

[68] Krieger, Nancy, Emily Wright, Jarvis T. Chen, Pamela D. Waterman, Eric R. Huntley, and Mariana Arcaya. "Cancer Stage at diagnosis, historical redlining, and current neighborhood characteristics: Breast, cervical, lung, and colorectal cancers, Massachusetts, 2001–2015." *American journal of epidemiology* 189, no. 10 (2020): 1065-1075.

[69] Reece, Jason. "More Than Shelter: Housing for Urban Maternal and Infant Health." *International Journal of Environmental Research and Public Health* 18, no. 7 (2021): 3331.

[70] Reece, Jason. "Confronting the Legacy of "Separate but Equal": Can the History of Race, Real Estate, and Discrimination Engage and Inform Contemporary Policy?." *RSF: The Russell Sage Foundation Journal of the Social Sciences* 7, no. 1 (2021): 110-133.

the distribution of toxic release sites, rates of infant mortality, and occurrences of diabetes reflect the historic imprint left by redlining. Infant mortality rates were 800 percent higher in redlined areas than in non-redlined communities. Additionally, the highest incidents of lead paint exposure occur in traditionally redlined areas, which is consistent with theories that suggest lack of capital can inhibit housing renovations critical to reducing exposure to lead paint. Life expectancy differences also reflects the same general patterns of these other critical health measures. Analysis found a thirteen- to fifteen-year gap between life expectancy in former green (A-rated) neighborhoods and those that were redlined."[71]

Fair Housing and Children's Outcomes:

Segregation and isolation into resource deprived communities is an ongoing challenge that is particularly harmful to children. The quality of and resources within neighborhood environments are profoundly important for child development.[72] A large number of case studies and longitudinal studies have explored the outcomes for adults and youth from housing mobility programs. Fair housing mobility programs impact children by improving conditions at the household and neighborhood scale simultaneously. Improved housing conditions reduce risks associated with vermin, allergens, mold and other indoor health challenges while also reducing environmental stress factors (primarily associated with an improved sense of safety).[73]

These studies have primarily emerged from the Moving to Opportunity (MTO) ten-year experimental demonstration project initiative by the U.S. Department of Housing & Urban Development in five cities. Research by Raj Chetty has identified the longitudinal effects of the MTO program on child health and future earnings. Chetty's research literature clearly indicates that moving to an opportunity rich neighborhood produces a greater likelihood of increased lifetime earnings for youth as well as lowered rates of disease and better mental health. Life-time earnings for children in the MTO experiment were 31 percent higher.[74]

Federal leadership and public policy are needed to support efforts to remedy our durable and complex legacy of discrimination in the housing market.

"If America's stark racial geography was intentionally constructed, work can be done to intentionally deconstruct it—although only through redirecting the momentum carried by public policy." -Faber, 2020, "We Built This: Consequences of New Deal Era Intervention in America's Racial Geography." American Sociological Review. pg. 3.

Many contemporary policy innovations and reforms could proactively counter the legacy of segregation in the housing market and foster reinvestment into neighborhoods that have faced historic disinvestment. Federal leadership and investment are needed to support communities and local governments who attempt to dismantle exclusionary land use regulations, open housing opportunities and foster reinvestment into historically disinvested

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[71] Reece, Jason. "Confronting the Legacy of "Separate but Equal": Can the History of Race, Real Estate, and Discrimination Engage and Inform Contemporary Policy?." *RSF: The Russell Sage Foundation Journal of the Social Sciences* 7, no. 1 (2021): 110-133. Quoting directly from page 119-120.

[72] Acevedo-Garcia, Dolores, Clemens Noelke, Nancy McArdle, Nomi Sofer, Nick Huntington, Erin Hardy, Rebecca Huber, Mikyung Baek, and Jason Reece. "The geography of child opportunity: why neighborhoods matter for equity." *Diversity Data Kids* (2020).

[73] Acevedo-Garcia, Dolores, Theresa L. Osypuk, Rebecca E. Werbel, Ellen R. Meara, David M. Cutler, and Lisa F. Berkman. "Does housing mobility policy improve health?." *Housing policy debate* 15, no. 1 (2004): 49-98.

[74] Chetty, Raj, Nathaniel Hendren, and Lawrence F. Katz. "The effects of exposure to better neighborhoods on children: New evidence from the Moving to Opportunity experiment." *American Economic Review* 106, no. 4 (2016): 855-902.

neighborhoods. Federal leadership is needed in building capacity, fostering collaboration, fostering local innovation while assuring protection of civil rights.[75] The federal government's leadership could be beneficial in aligning critical infrastructure investments, supporting the implementation of fair housing programs (particularly housing mobility programs) and fostering regional planning activities and capacity building.

Investment in Families, Neighborhoods and Regions:

As illustrated in the scholarship presented in my testimony, stable housing and healthy neighborhood environments are critical to family wellbeing and child development. Open and affordable housing markets are critical to support the labor force and for labor force mobility in metropolitan areas. Housing is a critical form of infrastructure serving families, neighborhoods and regions. Investment and policy reforms are needed to foster greater provision of affordable housing and open housing markets. For example, recent programs such as the U.S. Department of Housing and Urban Development's Housing Choice Voucher Mobility Demonstration should be expanded to assist local housing authorities in providing better access to safe and healthy neighborhoods for voucher holders.

We have growing evidence that when housing mobility programs are aligned with supportive coaching and social services, families and children see improved life outcomes ranging from economics and education, to health.[76] My recent research has followed the outcomes for Move to Prosper, a locally created housing mobility program in Columbus, OH. With limited funding support for housing mobility programs, Move to Prosper has utilized public-private partnerships to align private rental units in high opportunity areas with families who are housing unstable, while providing comprehensive life coaching.[77] While the program has demonstrated tremendous economic, educational and health benefits within the first three years of implementation, the lack of sustainable investment in similar programs limits the ability to scale and expand innovative programs like Move to Prosper.[78]

In addition to housing mobility, direct investment is needed in formerly redlined communities. Directing infrastructure investment into these communities and fostering equitable neighborhood revitalization will be critical to improving neighborhood conditions, while supporting affordable housing needs and creating opportunities for wealth building for families. We have strong evidence that collaborative investment that aligns various forms of infrastructure (e.g. transportation, housing and other public infrastructure) into historically disinvested communities can foster redevelopment. Being attentive to assuring a sustainable base of affordable housing during this process would allow long term residents to benefit from improving neighborhood conditions while avoiding displacement from rising housing prices.[79] Federal programs, such as the formerly introduced Livable Communities initiative, could be transformative in sparking the synergistic investment in infrastructure and affordable housing

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[75] Reece, Jason, and Meghan Z. Gough. "Planning for regional sustainability and justice: The role of collective impact." *Community Development* 50, no. 3 (2019): 368-386.

[76] Chetty, Raj, J. P. A. L. Harvard, NBER Stefanie DeLuca, and Johns Hopkins. "Creating Moves to Opportunity." (2020).

[77] Reece, J.W.; Kleit, R.; Klaben, A. "Going Local to Support Fair Housing: Establishing the Move to PROSPER Housing Mobility Program." *Poverty and Race: Journal of the Poverty Research Action Council, Volume 28: Number 1* (January-April 2019), 3-11.

[78] Reece, J.W.; Lee, J.Y. (2021). Move to PROSPER: Interim Program Evaluation 3.0. Retrieved from https://www.movetoprosper.org/prosperitybrief2021

[79] Kelleher, Kelly, Jason Reece, and Megan Sandel. "The healthy neighborhood, healthy families initiative." *Pediatrics* 142, no. 3 (2018).

needed for neighborhood transformation.[80]

Supporting Metropolitan Planning Organizations and Regional Governments in Developing Regional Housing Strategies.

Metropolitan housing markets are most effectively planned for through regional housing strategies. Regional housing approaches can align local government land use regulations and help reform local exclusionary housing policies. [81] Regional housing strategies also can assist in incentivizing local governments to implement inclusionary housing programs, such as inclusionary zoning and community land trusts. Regional planning is critical to build consensus, build capacity and develop strategy among multiple local governments. Programs such as the regional planning competitive grant program from the HUD Sustainable Communities Initiative could be reintroduced to support the capacity for regional planning. My scholarship evaluating the impacts of the SCI regional planning grant program, found SCI to be very effective in fostering better alignment of regional development, transportation and housing and supporting equitable housing policies in more than seventy grantee regions.[82] The SCI program and planning frameworks such as the Fair Housing Equity Assessment (an early pilot protype of the revised Affirmatively Furthering Fair Housing Rule) strengthened collaboration around issues of racial and social equity in grantee regions, while providing data capacity to help regions understand and address issues of regional inequity.[83]

Conclusion

Efforts to reduce contemporary discrimination in the housing market and directing investment into historically disinvested neighborhoods would benefit racial and ethnic populations that are deeply impacted by segregation. These actions would also benefit society as a whole and provide an investment into the next generation of American society, boosting the nation's health, wealth and economic competitiveness.

Thank you for the opportunity to testify today. I look forward to your questions.

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[80] S.1621 - Livable Communities Act of 2011. 112th Congress (2011-2012). https://www.congress.gov/bill/112th-congress/senate-bill/1621/text

[81] Serkin, Christopher, and Leslie Wellington. "Putting exclusionary zoning in its place: Affordable housing and geographical scale." *Fordham Urb. LJ* 40 (2012): 1667.

[82] Reece, Jason. "In pursuit of just communities: supporting community development for marginalized communities through regional sustainability planning." In *Research Handbook on Community Development*. Edward Elgar Publishing, 2020.

[83] Gough, Meghan Z., and Jason Reece. "The Impact of the Sustainable Communities Initiative on engagement and collaboration in planning: experiences from four US regions." *Cityscape* 19, no. 3 (2017): 115-134.

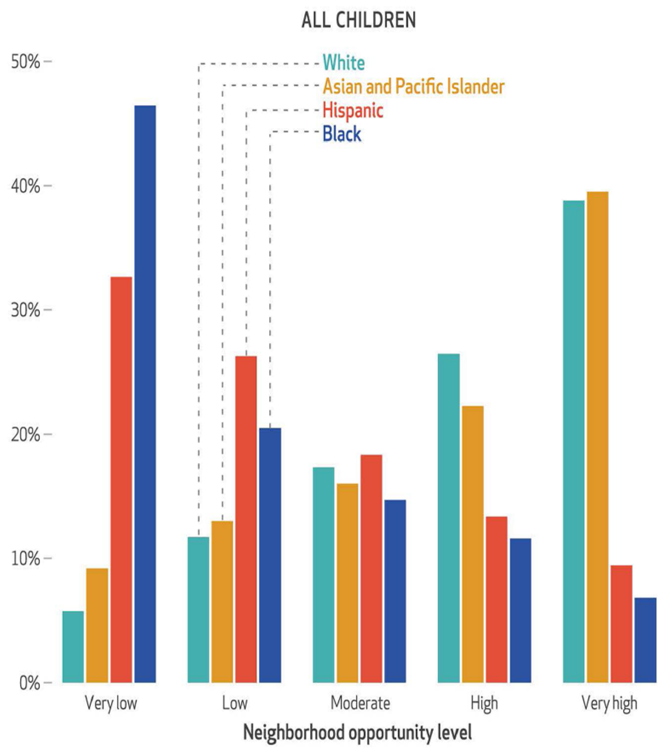


Figure 1: Percent of all children across levels of neighborhood opportunity, by race/ethnicity (100 largest metropolitan areas combined). Directly adapted from exhibit 2 in Acevedo-Garcia, Dolores, Clemens Noelke, Nancy McArdle, Nomi Sofer, Erin F. Hardy, Michelle Weiner, Mikyung Baek, Nick Huntington, Rebecca Huber, and Jason Reece. "Racial And Ethnic Inequities In Children's Neighborhoods: Evidence From The New Child Opportunity Index 2.0: Study uses the Child Opportunity Index 2.0 to examine geographic and racial/ethnic inequities children are exposed to in the one hundred largest metropolitan areas of the United States." Health Affairs 39, no. 10 (2020): 1693-1701.

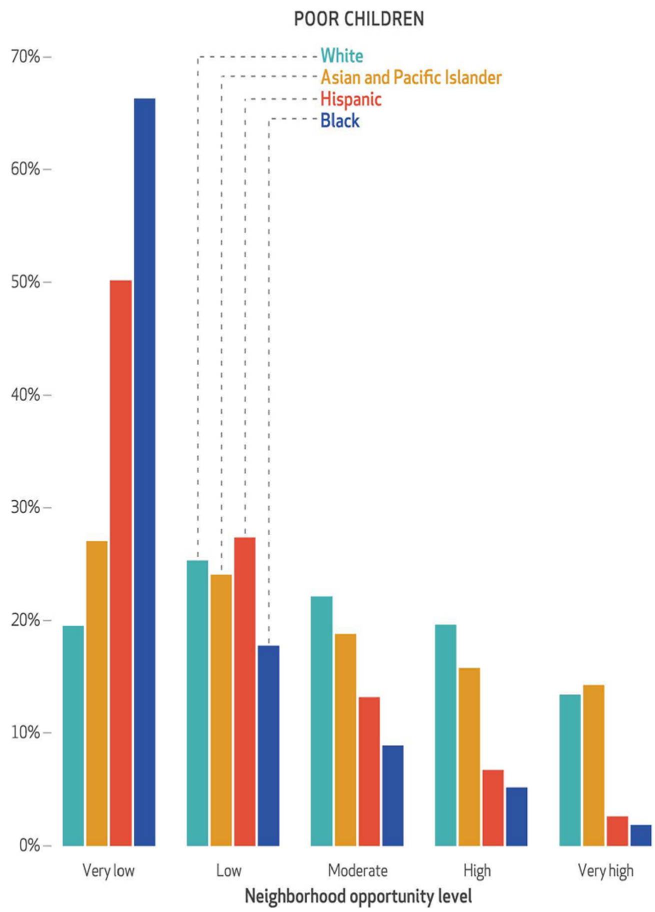


Figure 2: Percent of all children in poverty across levels of neighborhood opportunity, by race/ethnicity (100 largest metropolitan areas combined). Directly adapted from exhibit 3 in Acevedo-Garcia, Dolores, Clemens Noelke, Nancy McArdle, Nomi Sofer, Erin F. Hardy, Michelle Weiner, Mikyung Baek, Nick Huntington, Rebecca Huber, and Jason Reece. "Racial And Ethnic Inequities In Children's Neighborhoods: Evidence From The New Child Opportunity Index 2.0: Study uses the Child Opportunity Index 2.0 to examine geographic and racial/ethnic inequities children are exposed to in the one hundred largest metropolitan areas of the United States." Health Affairs 39, no. 10 (2020): 1693-1701.

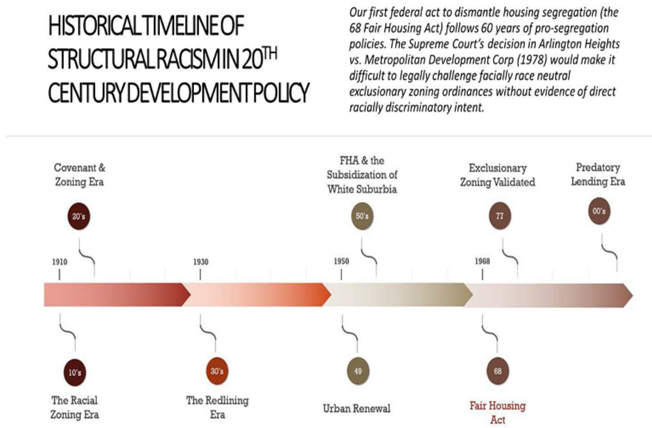
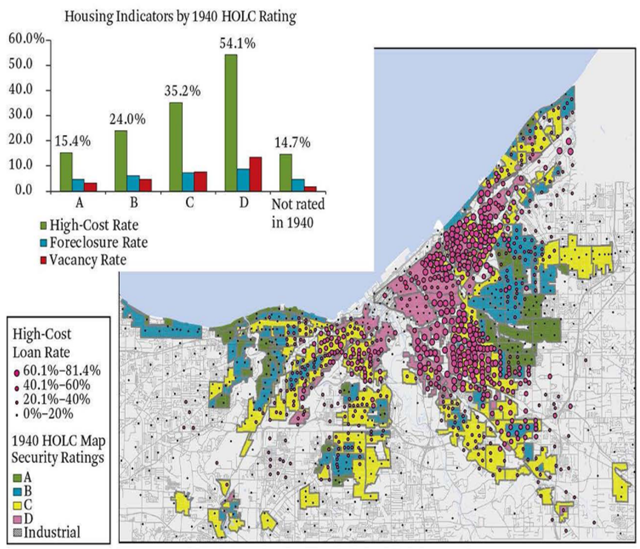
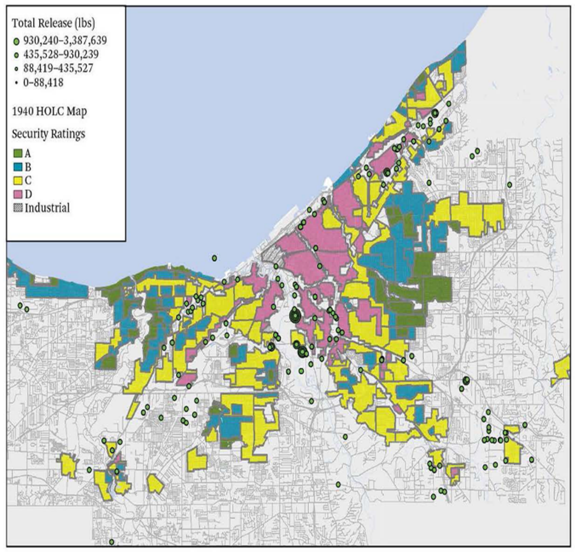


Figure 3: Historical timeline of structural racism in 20th century development policy.



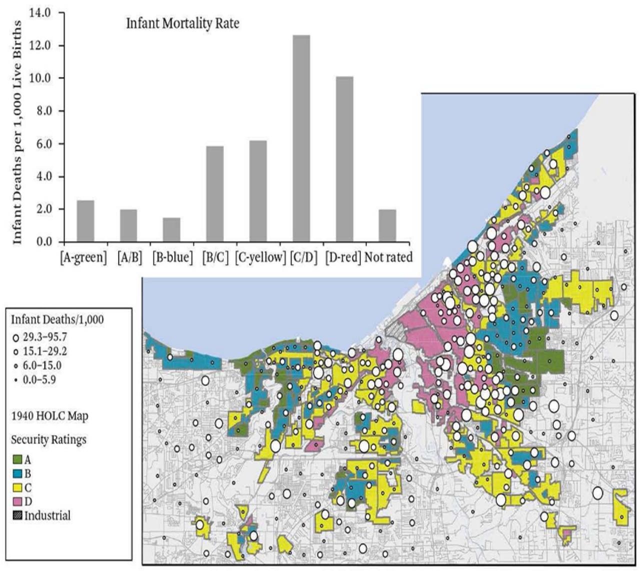
Source: Created by author from 1940 HOLC map and U.S. Department of Housing and Urban Development Neighborhood Stabilization Program data (adapted from analysis in Reece et al. 2015).
Note: Areas in light gray were unrated in 1940. The optimal way to view figures 1–5 is in color. We refer readers of the print edition of this article to https://www.rsfjournal.org/content/7/1/110 to view the color versions.

Figure 4: HOLC (Redlining) Map of Cleveland from 1940 overlaid with high cost loans in 2008. Figure taken directly from Figure 1 in Reece, Jason. "Confronting the Legacy of "Separate but Equal": Can the History of Race, Real Estate, and Discrimination Engage and Inform Contemporary Policy?." *RSF: The Russell Sage Foundation Journal of the Social Sciences* 7, no. 1 (2021): 110-133.



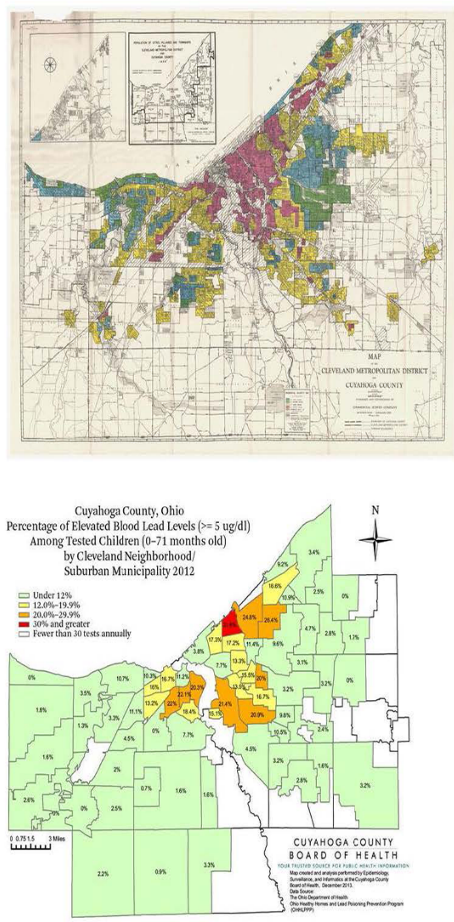
Source: Created by author from 1940 HOLC map and U.S. Environmental Protection Agency Toxic Waste Release Inventory data (adapted from analysis in Reece et al. 2015).
Note: Areas in light gray were unrated in 1940.

Figure 5: HOLC (Redlining Map) of Cleveland 1940 and Current Location of Toxic Waste Release Sites. Figure taken directly from Figure 2 in Reece, Jason. "Confronting the Legacy of "Separate but Equal": Can the History of Race, Real Estate, and Discrimination Engage and Inform Contemporary Policy?." *RSF: The Russell Sage Foundation Journal of the Social Sciences* 7, no. 1 (2021): 110-133.



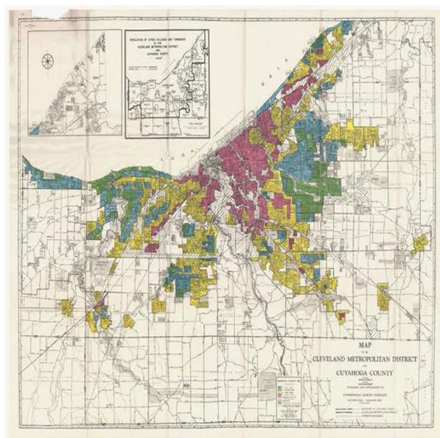
Source: Created by author from 1940 HOLC map and 2010 Infant Mortality data from the Ohio Department of Health (adapted from analysis in Reece et al. 2015).
Note: Areas in light gray were unrated in 1940.

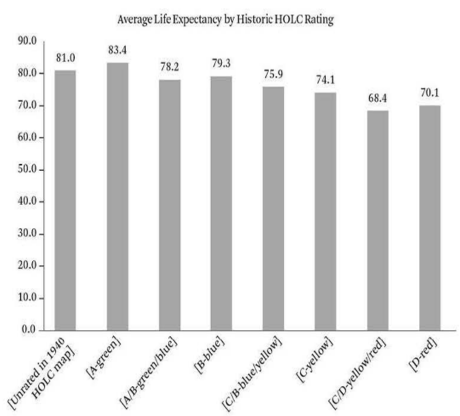
Figure 6: HOLC (Redlining Map) of Cleveland 1940 and Infant Mortality Rate in 2010. Figure taken directly from Figure 3 in Reece, Jason. "Confronting the Legacy of "Separate but Equal": Can the History of Race, Real Estate, and Discrimination Engage and Inform Contemporary Policy?." *RSF: The Russell Sage Foundation Journal of the Social Sciences* 7, no. 1 (2021): 110-133.



Source: Created by author from 1940 HOLC map and 2012 lead test results from Cuyahoga County Board of Health (adapted from analysis in Reece et al. 2015).

Figure 7: HOLC (Redlining Map) of Cleveland 1940 and Elevated Lead Tests in Children 2012. Figure taken directly from Figure 4 in Reece, Jason. "Confronting the Legacy of "Separate but Equal": Can the History of Race, Real Estate, and Discrimination Engage and Inform Contemporary Policy?." RSF: The Russell Sage Foundation Journal of the Social Sciences 7, no. 1 (2021): 110-133.





Source: Created by author from 1940 HOLC map and Cuyahoga County Board of Public Health 2008/2010 life expectancy data (adapted from analysis in Reece et al. 2015).

Figure 8: HOLC (Redlining Map) of Cleveland 1940 and 2008-2010. Figure taken directly from Figure 5 in Reece, Jason. "Confronting the Legacy of "Separate but Equal": Can the History of Race, Real Estate, and Discrimination Engage and Inform Contemporary Policy?." *RSF: The Russell Sage Foundation Journal of the Social Sciences* 7, no. 1 (2021): 110-133.

PREPARED STATEMENT OF HOWARD HUSOCK

EXECUTIVE SENIOR FELLOW, PHILANTHROPY ROUNDTABLE, AND ADJUNCT FELLOW, AMERICAN ENTERPRISE INSTITUTE

APRIL 13, 2021

Chairman Brown, Ranking Member Toomey, and distinguished members of the Senate Committee on Banking, Housing, and Urban Affairs, my name is Howard Husock, and I am an adjunct scholar at the American Enterprise Institute, where I focus on local government, civil society, and urban housing policy. I am concurrently an executive senior fellow with the Philanthropy Roundtable. Before joining AEI, I was vice president for research and publications at the Manhattan Institute and director of case studies in public policy and management at the Harvard Kennedy School. I am the author of *America's Trillion-Dollar Housing Mistake: The Failure of American Housing Policy* (Ivan R. Dee, 2003) and a forthcoming book, *The Poor Side of Town—and Why We Need One*.

It is an honor to submit my testimony for today's hearing, titled "Separate and Unequal: The Legacy of Racial Discrimination in Housing," alongside my colleague Tobias Peter and the other distinguished guests. It is a special honor to testify before the distinguished senator from Ohio, my own home state.

Historical Paradigm Shifts in Housing Policy

I will begin by briefly detailing the recent history of housing policy in the 20th century and the important paradigm shifts in housing policy as it affects racial discrimination. That the United States has been marked by an ugly history of race-related housing discrimination is beyond dispute. Private deed restrictions barred African Americans from buying or renting in the neighborhood of their choice, including such iconic American jurisdictions as Levittown, New York. Government policies reinforced and encouraged such bias, as exemplified by the infamous Federal Housing Administration redlining policies, which limited African American homebuyers' neighborhood choices by limiting government mortgage insurance. As a result, the GI Bill helped build generational wealth for returning white World War II veterans while limiting that same opportunity for black Americans.

This tragic path led to the landmark Fair Housing Act of 1968 and its key guiding assumption: that racial prejudice should not preclude any American household from buying or renting a home they can afford. One can think of this as a watershed moment in which government reversed course from the negative discrimination of redlining and the acquiescence in deed restrictions, which were formally struck down by the courts in 1948 (but still socially enforced during much of the mid-20th century).

But the history of government efforts to combat the effects of race in housing policy have also included what can be called "positive discrimination" or "race-conscious" polices—efforts understood as explicit government interventions in the marketplace conceived to benefit racial and ethnic minorities. It is crucial to consider the historical evidence we have based on the circumstances today: Have these efforts worked in furthering homeownership and wealth accumulation in traditionally underserved communities?

The first such broad intervention was public housing, initiated by the Wagner-Steagall Act of 1937. First Lady Eleanor Roosevelt worked to ensure that public housing developments would be set aside for African Americans and attending the ribbon-cutting ceremony for the Frederick Douglas Houses in Detroit. But this government benevolence has turned out to be at least as much curse as blessing. The unintended consequences of creating dependence on public housing has harmed racial minorities the most.

In Detroit—and Chicago, St. Louis, Pittsburgh, and other cities—historic African American neighborhoods with significant owner occupancy of small single-family and multifamily homes were bulldozed to make way for public housing. In many northern cities, public housing replaced the conditions that were in place to build generational wealth. In any one of these blighted urban areas, the consequences have been disastrous. Indeed, early 20th-century federal investigations found that housing conditions in low-income neighborhoods provided by private markets were far from the hellholes of popular imagination—which had fueled the original public housing movement. Table 1 shows the extent of such owner occupancy and owner presence, based on Census statistics.[1]

Table 1. Families and Individuals Living in Owned vs. Rented Tenements, Chicago, 1894

Units in Structure	Owner Occupied	Renters	Total Number	Owner Presence
1	77	293	370	77
2	73	553	626	146
3	68	413	2,341	204
4	51	569	620	204
5	48	444	492	240
6	48	590	638	288
7	11	135	146	77
8	13	208	221	104
9	0	33	—	—
10	1	18	19	10
11	3	26	29	33
12	0	48	0	0
13	1	14	15	13
14	2	25	27	27
15	1	31	32	15
18	0	18	18	0
22	0	24	24	0
24	0	42	42	0
TOTALS	*397*	*1,335*	*3,484*	*1,412*
OWNER-PRESENCE RATIO: 36 PERCENT				

Note: **The district studied is starting from Polk and Halsted streets, along Halsted to Taylor, along Taylor to Newberry Avenue, along Newberry avenue to Twelfth, along Twelfth to State, along State to Polk, and along Polk to Halsted.**
Source: Census data compiled by Tobias Peter.

With the clearing of many of these homes also came the clearance of hundreds of black-owned businesses. In Detroit, the New Bethel AME Church, where Aretha Franklin first sang and her father preached, was torn down. So too was Pittsburgh's Hill neighborhood, immortalized in the plays of August Wilson. These neighborhoods were repositories of African American wealth, modest perhaps but not insignificant. Perhaps more importantly, they were also communities in which wealth accumulation and prosperity were possible.

In contrast, ownership in public housing is by definition impossible. It has unfortunately played a role in the tragic lag in wealth experienced by black families, which has had devastating ramifications for today. And, of course, much of original public housing stock has rapidly deteriorated and was itself bulldozed—with no compensation for residents.

The tragic history of public housing has burdened disproportionately low-income minority residents with no way to build wealth and hindered mobility, both economically and geographically. The well-intended but misguided policy to set public and subsidized housing rents at 30 percent of income has had the collateral effect of raising rent on those whose income increases. This has created a well-documented feeling of being "stuck in place."

Keep in mind that the average tenure in public housing in New York City, the largest public housing authority in the country, is now 22 years, up from 19 in 2005.[2] We encouraged households to stay by discouraging them from increasing their earnings. African Americans today remain disproportionately overrepresented in public housing. This is not an achievement; it is a collective failure, especially in a country where homeownership is the leading route to wealth accumulation.

Moreover, conditions in public housing are often physically abysmal. In New York City, the capital maintenance backlog is estimated at $40 billion.[3] Even that understates the system's problems. As I have written in research reports for the Manhattan Institute, its lack of turnover means that low-income newcomers do not have access to the system[4]; its lack of retail operations means that large numbers of public housing developments, and not just in New York, are in food deserts.[5]

It is time to go beyond doubling down on the failed public and subsidized housing policies of the past. The Obama-era Rental Assistance Demonstration program, which has brought private capital into management and renovation, was a start. But we should even consider outright buyouts of tenants to compensate for their years of missed household asset appreciation. As I have written in *City Journal*, such buyouts could be accompanied by selling high-value public housing properties, such as those in Manhattan and Brooklyn.[6] Such sales could bring in billions of dollars with which to compensate long-term tenants.

As I have written for the *Atlantic*,

> As early as 1907, a study by the U.S. Immigration Commission found that in low-income communities, "84 in every 100 homes were in either good or fair condition. . . . The neglected appearance of the streets is the result of the indifference on the part of public authorities." In 1909 the President's Homes Commission found that even the poorest households, on average, spent just 21 percent of income on rent.[7]

We must never give up on ensuring that low-income neighborhoods, with the proper public safety, public schools, and public amenities, can be good neighborhoods and need not be replaced with government-owned, -operated, and -subsidized housing.

The Trouble with the Community Reinvestment Act

Recent forms of positive housing discrimination or race-conscious housing choices should also concern all those who are committed to upward mobility and wealth accumulation for households of color.

The Community Reinvestment Act (CRA) was enacted in 1977 at a time when regulation sharply limited competition in the financial sector; interstate banking was unknown. The possibility that banks would turn their backs on less profitable but still remunerative lending in lower-income neighborhoods could not be ruled out, and the country was still struggling with the immediate legacy of the Jim Crow South and other forms of discrimination in the lending market.

In the years since, however, lending has been revolutionized by technology and competition, including by nonbank lenders, which has become fierce. It is certainly no longer clear that, absent regulation, bank redlining would persist. But such positive discrimination as the CRA could harm the prospects of those it sets out to help. I do not refer here to the idea that the CRA—or the affordable housing mandates of the secondary mortgage market institutions Fannie Mae and Freddie Mac—were the key cause of the 2008 financial crisis, although they likely played a supporting role. My concern, rather, is that this regulatory regime creates incentives to extend credit as to meet regulatory targets—and that, as a result, loan performance is at risk.

A 2013 National Bureau of Economic Research paper found reason to conclude that was the case. In answer to the title question "Did the Community Reinvestment Act Lead to Risky Lending?" economists from MIT, the University of Chicago, Northwestern, and the National University of Singapore answer succinctly, "Yes."[8] By comparing the lending behavior of banks in the period immediately before CRA exams by regulators and periods when they do not face such exams, they conclude that loans made in the run-up to exams default about 15 percent more often. My concern here is not for the profits of big banks. Rather, I'm concerned about the minority homeowner who finds themselves living on a block where homes have gone into default and foreclosure, repairs forgone and property values and thus wealth accumulation threatened.

This is exactly what we saw during the 2008 financial crisis. As the Federal Reserve Bank of St. Louis concluded: "The Great Recession was far more destructive for these minorities regardless of income."[9] This is what I foresaw when I wrote in *City Journal* in 2000:

> The CRA's premise sounds unassailable: helping the poor buy and keep homes will stabilize and rebuild city neighborhoods. As enforced today, though, the law portends just the opposite, threatening to undermine the efforts of the upwardly mobile poor by saddling them with neighbors more than usually likely to depress property values by not maintaining their homes adequately or by losing them to foreclosure.[10]

Again, the CRA was not the sole precipitant of the 2008 housing crisis. But it does explicitly focus on minority neighborhoods. In a dramatically more competitive banking environment in which profitable opportunities are eagerly sought, the original justification for the CRA appears superannuated.

Indeed, the history of federal housing programs meant to assist low-income neighborhoods of color is a sobering one. The committee should be mindful of historic 1971 hearings, chaired by Sen. Philip Hart (D-MI), which investigated the devastating effects of low down-payment loans to underqualified homebuyers through the Boston Banks Urban Renewal Group.[11] What was meant to be a boon to minority homeownership led instead to large-scale foreclosure and abandonment in that city's Dorchester and Mattapan neighborhoods, which, to this day, continue to struggle.

Keep in mind that CRA explicitly targets disproportionately minority neighborhoods. In a dramatically more competitive banking environment in which profitable opportunities are eagerly sought, the original justification for the CRA appears superannuated.

Affirmatively Furthering Fair Housing

Another concerning case of positive discrimination is the Affirmatively Furthering Fair Housing (AFFH) initiative, developed by the Obama administration. Again, it has a core of a good idea. Too many of our municipalities have adopted draconian zoning laws, which limit construction of the types of smaller single-family and multifamily homes that have historically served lower-income households well. But the AFFH's emphasis on using federal Housing and Urban Development (HUD) funding as a stick to force the construction of affordable housing targeted for minorities will not serve well those it aims to help.

As in public housing, subsidized rentals do not build household wealth through property value appreciation. Such units are costly, as well; for instance, as the Terner Center at the University of California, Berkeley, has calculated, tax-credit-financed construction of low-income housing in California costs $480,000 per unit.[12] In Westchester County, New York, where HUD used legal action to promote the AFFH-type approach, county funds of $51.6 million had to be used as a portion of funding for some 800 subsidized units targeted for African Americans. That meant that locally raised tax revenues were needed—including those paid by the 16 percent of county residents who are African American and the 26 percent who are Hispanic, many of them homeowners who did not benefit from subsidies.[13] Former HUD Secretary Ben Carson sought to revise the AFFH rule to encourage greater housing-type diversity before ultimately terminating it altogether.

Conclusion

I will leave you with a few final policy recommendations.

- **Public Housing.** Adopt fixed-rent leases for public and other subsidized housing tenants. Experiment with public housing tenant buyouts, financed by property sales. Introduce supermarkets and other retail uses to public housing developments.

- **Community Reinvestment Act.** If CRA is to continue in force, include regular loan performance reviews specifically for CRA-qualified lending—and make it clear to lenders that performance matters, not just the extension of credit.

- **Fair Housing.** Enforce testing-based models to ensure that no household that can afford to rent or buy is turned away because of race. Fair Housing Act enforcement, however, must be mindful that differences other than race—including credit scores—cannot be overlooked in any assessment of discrimination.

- **Zoning.** The proposed $5 billion incentive plan for communities willing to relax regulatory barriers to housing may be a start, but, in the long run, relaxing such barriers will be up to the thousands of local zoning and planning boards across the U.S. HUD must demonstrate the virtues of such changes not rely on incentives or coercion. Use HUD to provide models, not mandates, for local communities to reform zoning in ways that will accommodate a wider range of income groups, without subsidies. These should include "missing middle" structures, such a small single-family homes and two- to four-unit structures that allow on-site owners to enter the market. In my forthcoming book, I demonstrate how that approach has worked effectively.

These approaches will effectively provide vehicles of opportunity for those of all races—but especially minorities who have been harmed by a history of ill-conceived government assistance policies.

It is an honor to testify in front of you, and I look forward to your questions. Thank you.

Endnotes

[1] These data were generously compiled by Tobias Peter, Research Fellow and Director of Research, AEI Housing Center.
[2] Mireya Navarro, "As New York Rents Soar, Public Housing Becomes Lifelong Refuge," *New York Times,* August 3, 2015, https://www.nytimes.com/2015/08/04/nyregion/as-new-york-rents-soar-public-housing-becomes-lifelong-refuge.html.
[3] Community Service Society, "CSS Report: NYCHA Residents Sharply Divided over Authority's Plans to Generate Funds Needed to Address $40 Billion Capital Backlog," press release, July 9, 2020, https://www.cssny.org/news/entry/css-report-nycha-residents-sharply-divided-over-authoritys-plans-to-generat.
[4] Howard Husock, "How New York's Public Housing Fails the City's New Poor," Manhattan Institute, October 3, 2017, https://www.manhattan-institute.org/html/how-new-yorks-public-housing-fails-citys-new-poor-10662.html.
[5] Howard Husock, "Turning Food Deserts into Oases: Why NY's Public Housing Should Encourage Commercial Development," Manhattan Institute, October 25, 2016, https://www.manhattan-institute.org/html/turning-food-deserts-oases-new-york-public-housing.
[6] Howard Husock, "Project Phaseout," *City Journal,* 2009, https://www.city-journal.org/html/project-phaseout-13186.html.
[7] Howard Husock, "Public Housing Becomes the Latest Progressive Fantasy," *The Atlantic*, November 25, 2019, https://www.theatlantic.com/ideas/archive/2019/11/public-housing-fundamentally-flawed/602515/.
[8] Sumit Agarwal et al., "Did the Community Reinvestment Act (CRA) Lead to Risky Lending?" (working paper, National Bureau of Economic Research, Cambridge, MA, December 2012), https://www.nber.org/papers/w18609.
[9] Carlos Garriga, Lowell R. Ricketts, and Don E. Schlagenhauf, "The Homeownership Experience of Minorities During the Great Recession," *Federal Reserve Bank of St. Louis* (First Quarter 2017): 139–67, https://files.stlouisfed.org/files/htdocs/publications/review/2017-02-15/the-homeownership-experience-of-minorities-during-the-great-recession.pdf.
[10] Howard Husock, "The Trillion-Dollar Bank Shakedown That Bodes Ill for Cities," *City Journal*, Winter 2000,

https://www.city-journal.org/html/trillion-dollar-bank-shakedown-bodes-ill-cities-12096.html.

[11] Competition in Real Estate and Mortgage Lending: Hearings before the United States Senate Committee on the Judiciary Subcommittee on Antitrust and Monopoly, 92nd Cong., 2nd sess. (September 13–15, 1971).

[12] Carolina Reid, "The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program," Terner Center at the University of California, Berkeley, March 2020, https://ternercenter.berkeley.edu/wp-content/uploads/pdfs/LIHTC_Construction_Costs_March_2020.pdf.

[13] Peter Applebome, "Despite 2009 Deal, Affordable Housing Roils Westchester," *New York Times*, April 3, 2012, https://www.nytimes.com/2012/04/04/nyregion/westchester-countys-commitment-to-affordable-housing-agreement-is-questioned.html.

PREPARED STATEMENT OF TOBIAS J. PETER

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APRIL 13, 2021

Chairman Brown and Ranking Member Toomey, thank you for the opportunity to testify today.

Executive Summary:

Many of the housing problems we face today as a nation have occurred, not in spite of federal policies, but because of them. Two policies in particular have been major contributors to the separate and unequal housing legacy we find ourselves in today. Racial discrimination in residential zoning policies espoused by the federal government may be traced back to 1921 and foreclosure-prone affordable housing policies back to 1954. These two policies continue to contribute to disparate outcomes and put low-income and minority borrowers needlessly in harm's way and severely limit their opportunities to build generational wealth.

- Zoning policies espoused by the federal government and widely adopted around the country have constrained the private sector's ability to build adequate housing, thus fueling housing unaffordability.
  - Starting in 1921, one-unit detached zoning policies became widespread through the actions of the federal government. Justified as actions "promoting health, safety, morals, or the general welfare", they were in fact thinly veiled efforts to promote racial segregation of residential development.
  - These policies have created an artificial supply shortage. We estimate without these policies an additional eight million homes would have and can still be built without subsidy by private enterprise.
  - This supply shortage has resulted in higher home prices and rents and greater levels of debt in order to become a homeowner.
  - Worsening affordability has severely affected low-income households, especially Black ones, by severely restricting the opportunity to sustainably purchase a home.
- Foreclosure-prone affordable housing policies began in 1954, when Congress authorized FHA to use the 30-year loan, and have been primarily targeted at low-income and minority borrowers.
  - These policies have subsidized debt by providing excessive leverage.
  - Coupled with the supply shortage, the increased demand from additional leverage has fueled unsustainable lending and higher home prices.
  - This is the paradox of accessible lending: When supply is constrained, credit easing will make entry-level homes less affordable.
  - During the Financial Crisis, these policies contributed to 8.6 million of foreclosures and other forced dispositions, which were proportionally higher in low-income and minority neighborhoods.
    - The foreclosure rate of 27% in low-income census tracts (defined as <80% of area median income) was 1.5 times as high as the 18% foreclosure rate in high-income census tracts (defined as ≥120% of area median income).
    - The foreclosure rate of 30% in census tracts with a Black and/or Hispanic share of households of at least 50% was twice as high as the 16% foreclosure rate in census tracts with a Black and/or Hispanic share of households of less than 10%.
  - These policies have not built generational wealth.
- Today, the nation finds itself in the midst of the second home price boom in less than a generation.
  - The national seller's market is now in its 101st month and levels of supply are at record lows. Home prices are rising in the 10-15% range compared to a year ago.

- Home price appreciation is being propelled by the Fed's low interest policies and quantitative easing, the desire for more space as more people work from home, and a wide credit box, particularly at FHA.
- Across the states you represent, affordability has worsened, especially for low-income and minority households. ***You can trace just how bad affordability has become from key housing market indicators for your state provided in Appendix A.***

- The COVID-19 pandemic has revealed the same fault lines that were present before the Financial Crisis, thus maintaining separate and unequal outcomes in the housing market.
  - Delinquencies are still largely geographically concentrated in low-income and minority neighborhoods, where federal policies provide widespread access to default-prone leverage.

Most importantly these federal policies have impeded the creation of generational wealth for lower-income and minority households and have served to perpetuate the legacy of racial discrimination and socio-economic stratification in housing. Due to their ongoing impact, there is a growing danger that housing is going to become even more separate and unequal. This is not a viable path forward.

1) The federal government's role in promoting racial discrimination in housing

Zoning ordinances limit residential development to one-unit, detached housing in large swathes of the U.S., restricting housing supply. How did we get to this point?

In 1916, New York City became the first U.S. municipality to adopt a zoning ordinance, with other localities following shortly behind. Commencing in 1921, the federal government became the driving force behind the widespread adoption of zoning by municipalities and the near universal move to adopt one-unit zoning districts. This effort was spearheaded by the U.S. Department of Commerce (hereafter "Commerce Department"), its Division of Building and Housing, and the department's long-time cabinet secretary and later U.S. president, Herbert Hoover.

The Commerce Department promoted the use of geographically separated zoning districts consisting of (i) 1-unit, single-family structures or (ii) multifamily structures (including 2-4 units) as a tool to keep racial and ethnic groups separate. While the stated goals of zoning policies espoused by the Department of Commerce were written in high-minded prose advocating American values including thrift and independence, the true purposes were thinly veiled: keeping immigrants from southern and central Europe, and, particularly, African Americans in zoning districts segregated from whites. In short, zoning could be used to create geographically separate districts where one-unit single-family detached housing was segregated from multifamily housing, resulting in the segregation of households by income and race.

In 1926, a pivotal Supreme Court decision on The Village of Euclid v. Ambler Realty Co. gave the practice of zoning constitutional sanction. This decision, along with the Supreme Court ruling on Zahn v. Board of Public Works the following year, created the legal foundation for the predominance in the United States of zoning districts consisting entirely of one-unit detached dwellings.

Beginning in 1934 the Federal Housing Administration (FHA) took over from the Commerce Department and went on to play a pivotal role in using zoning and housing finance to segregate residential development.

The lasting impact of the federal government's role through the actions of the Commerce Department and FHA is clear: The vast majority of residential land in major American cities is zoned exclusively for single-unit homes.

The legacy of zoning has created an artificial supply shortage. We estimate without these policies an additional eight million homes would have and can still be built without subsidy by private enterprise.[1] This becomes clear when considering two case studies (shown below) that provide natural experiments of the power of the private sector to deliver new housing when zoning to higher densities is by-right and when localities make infill construction legal, easy, and feasible. As shown below, this supply shortage has resulted in higher home prices and rents and also greater levels of debt in order to afford homeownership. Worsening affordability has had a disparate impact on low-income households, especially Black ones.

2) **Foreclosure-prone affordable housing policies have contributed to the separate and unequal housing legacy we find ourselves in today.**

Foreclosure-prone affordable housing policies for single-family lending have subsidized debt by providing excessive leverage. These policies have been primarily targeted at low-income and minority homebuyers and began in 1954, when Congress authorized the 30-year loan for use on existing FHA home loans. Congress also raised loan-to–value (LTV) limits around the same time. The average FHA loan term and LTV in 1954 was 21.4 years and 79.9%. These rose to 27 years and 90% by 1959.

Congress doubled down on this policy with the passage of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, which would have a devastating effect. During the Financial Crisis, these policies contributed to 8.6 million of foreclosures, which were proportionally higher in low-income and minority neighborhoods. For example, the 27% foreclosure rate in low-income census tracts (defined as <80% of area median income) was 1.5 times as high as the 18% foreclosure rate in high-income census tracts (defined as ≥120% of area median income). Similarly, the foreclosure rate of 30% in census tracts with a Black and/or Hispanic share of households of at least 50% was twice as high as the 16% foreclosure rate in census tracts with a Black and/or Hispanic share of households of less than 10%.

Table: Foreclosure Rate by Neighborhood Type

Census Tract to Area Median Income Ratio	Foreclosure Rate
<80%	27%
80% - <120%	22%
≥120%	18%
All	22%

Census Tract Black and/or Hispanic share	Foreclosure Rate
≥50%	30%
20% - <50%	24%
10% - <20%	18%
<10%	16%

Note: Foreclosure rate is for loans originated between 2004 and 2008.
Source: LLMA and AEI Housing Center.

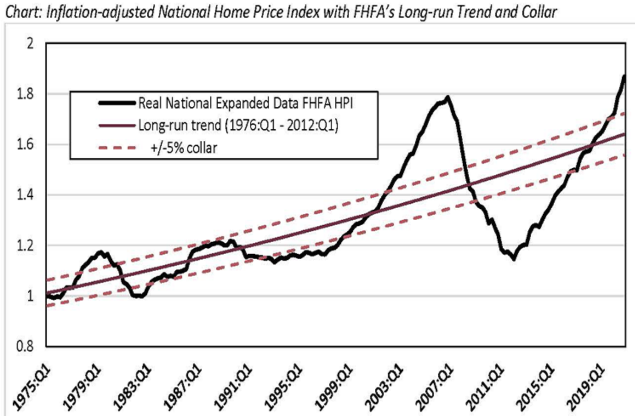
[1] The combined share of 2-, 3- and 4-units and single-family attached units as percentage of the total U.S. housing stock has shrunk by 8.0 percentage points from 1940 (26.5%) to 2008 (18.5)%. If these units had been built, it would have added 8 million more units (6.7 million in 2-4 structures and 1.3 million as single-family attached units) to the 100 million units of 1-4 unit housing stock.

Yet, the homeownership rate in 2020:Q4 was 65.8%, only marginally higher than the rate of 63.0% in 1964:Q4.[2] Today, the federal government's twin legacy of racially-motivated zoning and poorly designed affordable housing policies continue to make the housing market separate and unequal.

This is the paradox of accessible lending: When supply is constrained, credit easing will make entry-level homes less, not more, affordable. Credit easing merely permits one borrower to bid up the price against another would be buyer for a scarce good.[3] Thus, much of the credit easing that these federal policies provided are quickly capitalized into higher home prices. This is especially pertinent for entry-level homes, which are perennially in short supply. This puts upward pressure on home prices, does not expand access, and is dangerous; concepts we have had to learn and relearn.

Yet, merely a decade after the last housing crash, the country is in the midst of yet another housing boom already nine years in the making and which according to Nobel Laureate Robert Shiller was "already gigantic" by 2018.[4] The Federal Housing Finance Agency has developed a measure of the current state of the housing market in terms of the long-term inflation-adjusted home price trend. We are well above the long term trend and home prices are expected to continue to significantly increase in 2021 and likely 2022. An extended price boom not only makes homes unaffordable, but also promotes price volatility and unforgiving mean reversion.

Chart: Inflation-adjusted National Home Price Index with FHFA's Long-run Trend and Collar



Source: FHFA and AEI Housing Center.

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[2] Pinto, "Housing finance fact or fiction? FHA pioneered the 30-year fixed rate mortgage during the Great Depression?" June 2015, https://www.aei.org/economics/housing-finance/housing-finance-fact-or-fiction-fha-pioneered-the-30-year-fixed-rate-mortgage-during-the-great-depression/

[3] Fed Chairman Marriner Eccles, Federal Reserve Bulletin, The Current Inflation Problem, 1947.

[4] Robert Shiller, "The Housing Boom Is Already Gigantic. How Long Can It Last?" NYT Dec. 7, 2018.

3) **Many additional congressional actions have also contributed to the separate and unequal housing legacy we find ourselves in today. This might serve as a warning for many of today's proposed policies.**

Over the past decades, Congress has enacted many reforms such as the Housing Act of 1949, which provided subsidies for high-rise public housing, the Housing and Community Development Act of 1968, which further expanded FHA into high risk single-family and multifamily FHA insured lending, and the Tax Reform Act of 1986, which authorized the Low-Income Housing Tax Credit (LIHTC). What they have in common is that they have made housing outcomes more separate and unequal.

Today, Congress is considering new affordable housing proposals providing hundreds of billions of new funding. However, poorly designed housing assistance programs have not served this country well.

Seventy years after the Housing Act of 1949, we considering spending $40 billion of more to try to get public housing right. But consider these observations made in 1954 by housing leaders of the National Association of Home Builders:

> There are outstanding examples ... of federal programs that have hampered home building. The most glaring is public housing, subsidized at the expense of the tax payer, yet normally failing to meet the needs or services of the community as well as they could be met through private industry.... Public housing is not low-cost housing. It is high-cost housing offered at low rent. And the low rent is possible only because of government subsidies charged to all tax payers....The initial construction cost of public housing projects, however, is not the worst cost.... [There] is an operational subsidy of nearly $19,000 per apartment, which cost $11,000 to build.[5]

Fifty years have passed since the passage of the Housing and Community Development Act of 1968, the last time Congress provided subsidies to build or rehabilitate millions of homes. Today there are proposals to spend "five times in inflation-adjusted dollars that Congress authorized in the seminal Housing and Urban Development Act of 1968 to develop new affordable housing following widespread riots in the wake of Martin Luther King's assignation."[6] This 1973 book's title sums up devastation that followed the 1968 Act: *Cities Destroyed for Cash: The FHA Scandal at HUD.*[7]

Thirty-five years ago, Congress established the Low-Income Housing Tax Credit (LIHTC). Yet the LIHTC program has worked to reinforce racial discrimination. Just last month the City of Chicago reported that "since 2000, the majority of Chicago's LIHTC developments have been new construction located in high-poverty, majority Black areas, with a quarter located in higher-income "opportunity" areas."[8]

What is undeniable is that many of the housing problems we face today have occurred, not in spite of

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[5] *Housing ... U.S.A. : as industry leaders see it*, 1954, https://catalog.princeton.edu/catalog/SCSB-3002043

[6] *How Biden hopes to fix the thorniest problem in housing*, Politico, April 10, 2021, https://www.politico.com/news/2021/04/10/biden-housing-plan-480676#

[7] For example, the 1968 Act contributed to unprecedented levels of FHA foreclosures as documented in Boyer's *Cities Destroyed for Cash: The FHA Scandal at HUD* (1973).

[8] https://www.chicago.gov/city/en/depts/doh/provdrs/developers/news/2021/march/the-chicago-department-of-housing-announces-new-racial-equity-fo.html

federal policies, but because of them.[9] This should serve as a warning for future proposals.

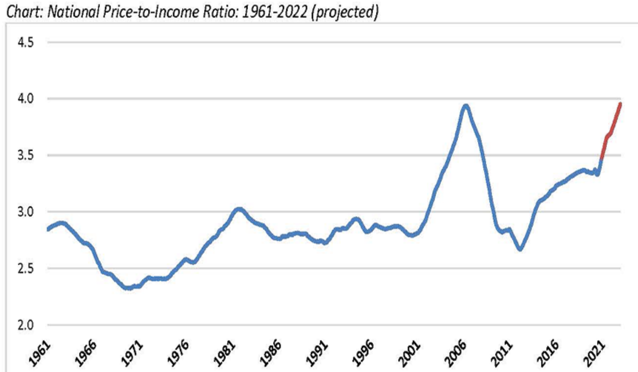
4) **Today, there is a real danger that the Fed's low interest rate policies will worsen housing affordability, making the housing market even more separate and unequal.**

As demand has outstripped supply since 2012, home price growth, which has averaged over 7%, has far outpaced household income growth, which has averaged about 3.5%. As a consequence, the national price-to-income ratio has risen significantly from 2.8 in 2012 to 3.5 at the end of 2020.

With national home prices currently appreciating in the 10-15% range, which is to be expected to continue until at least 2022 due to the Fed's low interest rate, and income growth about unchanged, the price-to-income ratio will invariably worsen. Furthermore, it is to be expected that these price increases will become permanent features. The longer prices outpace income growth, the harder it will be for low-income households to afford homeownership. The larger the difference between HPA and income growth is, the sooner we will be at a point where few low-income households will be able to afford homeownership.

At 10% home price appreciation combined with wage growth of about 3.5%, the national price-to-income ratio would go from today's 3.5 to 4.0 by 2022. This is the same level as was reached in 2006, at the height of the last boom. If that were to happen, even more renter households with incomes at 40-80% of area median would be permanently priced out of the housing market. Forty-four percent of these households are Black and Hispanic, thus making the housing market even more separate and unequal.

Chart: National Price-to-Income Ratio: 1961-2022 (projected)



Note: Red line is a projection for 2021 and 2022.
Source: Evercore ISI and AEI Housing Center.

[9] While our research has found no evidence of systemic racism on the part of residential real estate appraisers or FHA's lenders, we have found evidence of vestiges of separate but equal policies promoted by the federal government and of ongoing federal policies that put low-income households in harm's way.

As the Housing Market Indicators for every member's state show, this is a phenomenon affecting nearly the entire country, even states with currently relatively high affordability as certain regions are becoming more attractive due to Work from Home flexibilities. This implies that the pockets of affordability that existed in certain regions are quickly disappearing and more parts of the country will have price-to-income ratios similar to today's California.

The next table shows what a prolonged period of double digit home price growth will do to the affordability of lower-income households across the country.

For this analysis, we first divide wage earners into roughly equally-sized income thirds based on the median occupational wage and multiply the median income by 150%, which, according to Census Bureau data, is roughly the average multiplier for a household with a second wage earner. The low third is roughly equivalent to service sector workers, for who the wages across the country do not vary by much.

We then compute the metro's median home price and create a price-to-income ratio for each income third. The data for 2012 and 2019 are actual data. The data for 2022 are projections based on metro-specific assumptions about income and home price growth.[10] We display a number of representative metros: Pittsburgh and Columbus as illustrations of metros that currently are relatively affordable even for low-income households; Minneapolis, Atlanta, Charlotte, Phoenix, and Nashville are metros that were still fairly affordable in 2012 but have seen sharp declines in affordability; Sacramento and Riverside-San Bernardino are relatively lower-priced California metros and San Diego, San Francisco, and San Jose are high-priced California metros.

As is evident from the table, affordability has worsened across the board since 2012 for all income thirds. However affordability has worsened much more for low-income households than high-income households, a trend that will become even more problematic by 2022. By then, the ratio will have significantly worsened across all metros, and low-income households in Pittsburgh and Columbus will potentially be approaching the high price-to-income ratios Riverside-San Bernardino had in 2012.

[10] We first create wage thirds based on the median wage for occupational subcategories from the BLS Occupational Data Employment Statistics (OES). Each wage third contains roughly the same number of employees in each metro. Then multiply the median household income by 150%, which, according to Census Bureau data, is roughly the average multiplier for a household with a second wage earner. For the 2022 data, we project the median income by applying the respective growth rate for each wage third from 2018-2019 to the 2019 result for each projection year. Median home prices come from an Automated Valuation Model (AVM) for each single family property. The 2012 value applies a 5% home price appreciation to the Dec. 2011 AVM, which was roughly the national home price growth rate in 2012. For 2019, we use the Dec. 2019 AVM without any adjustment. For 2022, we project the median home price by applying the average of the AEI metro specific home price growth rate for Nov. and Dec. 2020 to the Dec. 2019 AVM for each projection year.

Table: Median Home Price to Median Household Income Ratio by Household (HH) Income Thirds

	Low-income HH			Middle-income HH			High-income HH		
	2012	2019	2022p	2012	2019	2022p	2012	2019	2022p
Pittsburgh, PA	3.5	4.5	5.5	2.3	2.8	3.3	1.3	1.6	1.8
Columbus, OH	4.2	5.7	6.7	2.5	3.6	4.9	1.4	2.0	2.6
Minneapolis, MN	4.9	6.5	7.1	2.9	4.0	4.8	1.6	2.2	2.8
Atlanta, GA	4.3	6.8	7.5	2.6	4.1	4.9	1.3	2.2	2.8
Charlotte, NC	4.9	6.9	8.1	3.0	4.3	5.3	1.7	2.3	2.6
Phoenix, AZ	4.1	7.2	8.7	2.5	4.9	6.8	1.4	2.6	3.2
Nashville, TN	4.7	7.5	9.6	3.0	4.9	6.0	1.8	2.9	4.0
Boston, MA	N/A	10.6	12.1	N/A	6.4	7.4	N/A	3.5	4.3
Sacramento, CA	5.8	10.7	12.1	3.5	6.5	7.8	1.8	3.7	4.7
Riverside-SB, CA	6.6	9.8	13.2	4.2	6.8	8.8	2.1	3.7	5.7
San Diego, CA	9.9	14.1	15.2	5.9	9.1	11.2	2.9	4.3	4.6
San Francisco, CA	11.8	19.0	19.4	6.1	11.0	12.6	3.1	5.2	5.2
San Jose, CA	14.0	21.3	21.6	6.0	11.0	11.9	2.9	5.1	4.7

Note: 2022 is a projection.
Source: BLS and AEI Housing Center.

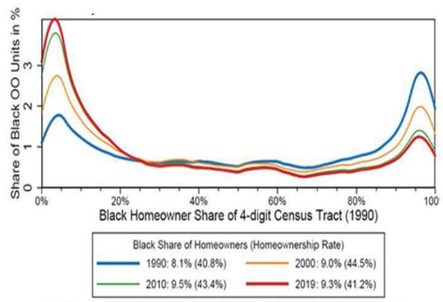
The consequences will be dire. Some people will never be able to afford homeownership. Even worse, they will be permanently priced out of the chance to move to areas of greater opportunity. (This also applies to rentals.) This could create a generation of permanent renters without expectation of ever affording the American Dream of homeownership. Such an outcome would permanently worsen wealth inequality and lead to permanent segregation along socio-economic status lines.

This would be a very unfortunate outcome given the progress the county has been making in racial integration, which has improved since 1990, but progress has slowed since 2010 perhaps because of the disparate impact of the Financial Crisis on minorities and the rapid level of home price appreciation during the current boom that started in 2012.[11]

While the Black homeownership rate in 2019 is below its rate in 1990, the stock of Black homeowners has increasingly shifted to areas that were predominantly White in 1990. We find the same pattern for renters (not shown). As shown in the chart, in 1990, about 32% of housing units with a Black householder were in tracts with 80% or more Black residents; in 2019 about 17% remained in such tracts. At the same time, the dissimilarity index between Blacks and Whites, which measures the share of Black residents (owners and renters) that would have to move to produce a distribution that matches that of the larger area, has fallen from 70% in 1990 to 59% in 2019.

[11] This is quite interesting given that according to recent report by WBEX Chicago, the Chicago Department of Housing (DOH) that is "In the last 20 years, the allocations from a tax credit program to build affordable housing in Chicago have mostly gone to high-poverty majority Black areas on the South and West sides and are underrepresented in more affluent white areas — another sign of stubborn segregation in the city."

Chart and Table: Black Owner Occupied (OO) Units by Black Homeowner Share of the Census Tract (left panel) and Black-White Dissimilarity Score (right panel)



Note: OO denotes 'owner occupied.' Share of black OO units (y-axis) and tract-level black Homeowner share (x-axis) are from the Census. Kernel bandwidth is set to 2.5%. Numbers in legend denote the black share of homeowners (homeownership rate). Census tracts are abbreviated to 4 digits to account for changes in census tract definitions between decennial censuses.

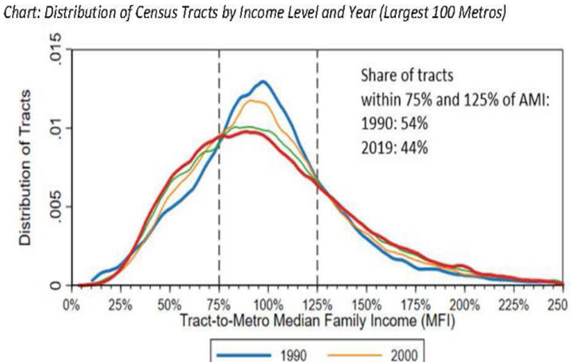
Dissimilarity Score*
(largest 100 metros):
1990: 70%
2000: 66%
2010: 61%
2019: 59%

*The dissimilarity index measures the share of Black residents (owners and renters) that would have to move to produce a distribution that matches that of the larger area.

Source: Census and AEI Housing Center, www.AEI.org/housing.

At the same time, however, income stratification has been increasing. The next chart measures the share of tracts within 75% and 125% of area median income, which is a proxy for the middle class. By this simple measure we can see that 54% of tracts in 1990 were within this range, compared to 44% in 2019. Income stratification has grown in virtually all of the largest 100 metros and does not appear to be correlated with a metro's minority share.

Chart: Distribution of Census Tracts by Income Level and Year (Largest 100 Metros)



Notes: Largest 100 metros are determined by total sales over 2012-2019 from public records. Sample of tracts is limited to tracts with nonmissing income data and below 250% of the area MFI. Dashed lines indicate income levels at 75% and 125% of the area MFI. Kernel bandwidth is 2.5%.

Note: MFI stands for Median Family Income and AMI stands for Area Median Income.

Source: Census, FFIEC, and AEI Housing Center, www.AEI.org/housing.

Increasing income stratification by geography is a poor policy outcome and threatens the ability of low-income households to build wealth. As home prices rise faster than incomes, it will permanently price low-income and minority households out of areas of opportunity.

Our research finds that economic class and family patterns, regardless of race, are more powerful drivers of home valuation gaps than race alone, even after adjusting for structural and neighborhood amenities.[12] While the country has a long history of explicit racial discrimination, this research founds that up to 20% of the gap in home valuations between majority Black and entirely White neighborhoods can be attributed to current or past vestiges of racial bias in the housing market or perhaps also omitted variables, while the other 80% or so could be attributed to the income and family pattern gap between Black and White neighborhoods. These findings underscore the need to not only focus on policy solutions for the housing market, but also to provide and support economically sound opportunities for income and wealth growth for lower income households, regardless of race or ethnicity. This is a topic I expand upon at the end of my testimony.

5) **The current housing boom is being driven by the paradox of accessible lending: When supply is constrained, credit easing, including extremely low interest rates, are quickly capitalized into higher home prices. This is making all homes, but particularly entry-level homes, less affordable.**

The national housing market is overheated with rapid home price appreciation and housing becoming unaffordable, especially for entry-level buyers. This is the result of a lack of supply combined with robust demand driven by a wide credit box, low mortgage rates, and recently Work from Home flexibilities. As a consequence, home price appreciation has been much faster than market fundamentals, such as changes in income or construction costs would support.

With the national seller's market now in its 101st month and levels of supply at record low levels, credit easing from federal guaranty agencies would again hurt homebuyers by stoking even more demand. Given the low level of supply, leverage from credit easing will again be easily capitalized into higher home prices. High leverage merely permits one borrower to bid against another would be buyer for scarce goods—specifically for low price tier, entry-level homes. This puts upward pressure on home prices, does not expand access, and is dangerous.

The housing market indicators for Ohio illustrate its broken housing ladder which is the result of home prices rising much faster than incomes. This makes it harder and harder for aspiring homebuyers to climb onto the first rungs. Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates (which work in the same manner as leverage) combined with unduly restrictive land use regulations.

Across the states you represent, affordability has worsened, especially for low-income and minority households. ***Below is an example for Ohio, but you can trace just how bad affordability has become in your state from the same key housing market indicators on your state provided in the appendix.***

[12] Edward Pinto and Tobias Peter, *Special briefing on the impact of race and socio-economic status on the valuation of homes by neighborhood* (2021), https://www.aei.org/economics/special-briefing-on-race-and-socioeconomic-status-on-the-valuation-of-homes-by-neighborhood/

Infographic: Housing Market Indicators for Ohio

AEI Housing Center

Additional data and methodology available upon request.
Edward Pinto - pintoedward1@gmail.com
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Housing Market Indicators for Ohio

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

1 Home Prices and Affordability

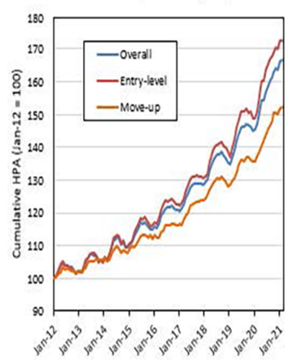
Since 2012, home price appreciation (HPA) in Ohio has totaled 67%. In the entry-level, HPA has totaled 73%, but only 52% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $14,500 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 13.4%, up from 7.4% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.

Home Price Appreciation (HPA) in Ohio



2 Demand

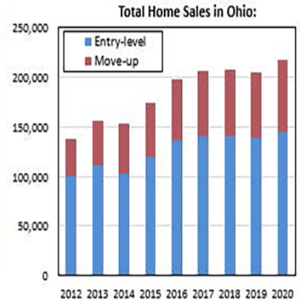
Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Ohio:

2020	All	FHA
Note Rate	3.25	3.38
Combined LTV	95	99
Credit Score	733	664
Debt-to-Income	36	42
Down payment (DP)	$10,600	$1,600
% with DP assistance	N/A	27%
% FTBs	55%	77%
MRI*	9.3%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.

Total Home Sales in Ohio:



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

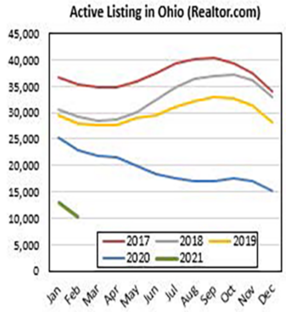
Additional data and methodology available upon request.
Edward Pinto - pintoedward1@gmail.com
Tobias Peter - tobias.peter@aei.org

Housing Market Indicators for Ohio

3 Supply

Strong demand and lack of new supply are depleting inventories in Ohio. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Ohio (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Ohio	2019	2020
Entry-Level	1.5	1.0
Move-Up	5.6	2.9
Overall	1.9	1.2

* Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

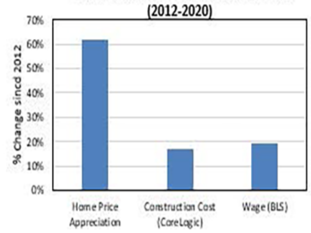
Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Ohio has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

4 Market Fundamentals

The Ohio housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in Ohio (2012-2020)



5 Recap

Ohio has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

6) **Ill-advised government policies and interventions have broken the housing ladder by inflating home prices. This has had a disparate impact on low-income and minority households that want to purchase at the entry-level.**

Due to the legacies of the federal government's promotion of racially biased zoning and its support for risky high-leverage mortgage loans, low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates.
We have examined one of these leverage policies, FHA's mortgage insurance premium cut from 2015 in greater detail. At the time, the FHA claimed that the premium drop would result in 250,000 new first-time buyers over the next three years, and save each FHA buyer $900 annually. In research by the AEI Housing Center, we along with our colleagues found that home prices went up by about 2.5% for FHA borrowers. These borrowers had to use part their new found "wealth" — obtained by paying lower FHA insurance premiums —to pay for the higher house price.[13]

Prices also went up for non-FHA buyers in neighborhoods with FHA insured sales. After all, it is one housing market, where borrowers, no matter the financing, compete for houses. This caused the non-FHA buyers, who did not receive the benefit of lower premiums, to largely offset the price increase by buying a home of lesser quality (perhaps a smaller home, a smaller lot, or in a different location) – they were the clear losers.

We estimate that about 500,000 of these non-FHA borrowers were first-time homebuyers. Each of these non-FHA homebuyers paid approximately $6,200 extra per house, a total extra payment of about $3.1 billion. From a cost-benefit perspective, this averages to an incredible $180,000 for each of the roughly 17,000 new FHA first-time buyers!

The big winners were the realtors who received hundreds of millions of dollars in higher commissions from higher prices. Little wonder the National Association of Realtors lobbied heavily for the cut in 2015. The increase in commissions from the 2015 cut averaged about $325 per sale. If you multiply that by the over 1.22 million home sales in tracts with high FHA concentration in 2015, you get a windfall of almost $400 million per year—not a bad return on the tiny fraction spent on lobbying.

Economic principles, ironically first described by Ernest Fisher, the FHA's first chief economist in the 1930s, gave us reasons to be doubtful of the FHA's predictions: liberalizing credit when the inventory of homes for sale is tight fails to bring in a lot of new buyers, and increased buying power in a sellers' market drives prices higher as buyers compete over a limited supply of houses. In 2015, the FHA ignored the fact that the nation was already two and one-half years into a seller's market — defined by the National Association of Realtors (NAR) as a market with less than a six month supply of homes for sale at the current selling pace.

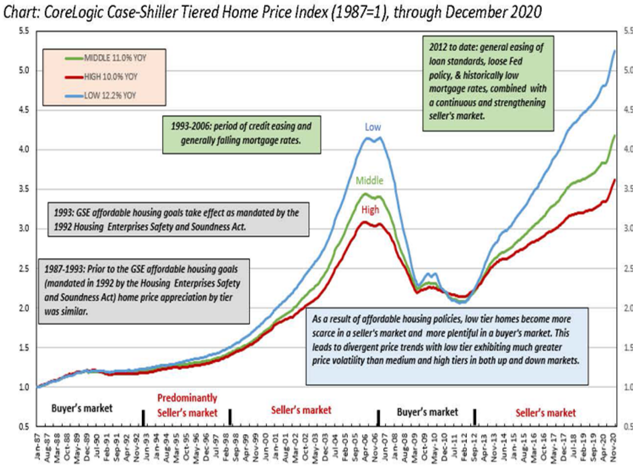
We also found that even though FHA's loan volume increased substantially in the first year after the 2015 premium cut, only about 17,000 were new first-time buyers, far short of FHA's prediction. The rest were borrowers poached from other federal agencies or buyers who purchased homes unrelatedly to the premium drop.

[13] Davis, Oliner, Peter, and Pinto, *The impact of federal housing policy on housing demand and homeownership: Evidence from a quasi-experiment*, http://www.aei.org/wp-content/uploads/2018/01/Oliner-homeownership-WP-Update.pdf?x91208

Policies that stoke demand while constraining supply beget a vicious cycle until prices and debt amounts reach an unsustainable level. By 2007–08, these policies had contributed to a financial crisis and ultimately hurt homeowners who were unprepared for the decline in prices. Today, we are again seeing the same phenomenon as evidenced by Case-Shiller house price data for 16 large metro areas. Since 2012, homes in the bottom third price tier have risen more than 150%, over twice the 69% increase in the top third tier. In addition, homes in the bottom third have also experienced far greater price volatility than homes in the top third. This has had a detrimental impact on many first-time or first generation home buyers who either need to take on more leverage to afford home ownership or are priced out of the market. Since 2007, this has resulted in millions of foreclosures, which affected low-income and minority neighborhoods more.

It is this continuing boom in home prices, particularly for entry-level homes, that makes credit easing a danger to entry-level buyers. The longer this upward trend continues, the greater the risk of a serious house price correction, a correction that would pose a serious threat to borrowers and taxpayers.

Chart: CoreLogic Case-Shiller Tiered Home Price Index (1987=1), through December 2020



Tiers price breakouts are calculated by breaking up all sales for each period, so that there are the same number of sales, after accounting for exclusions, in each of the 3 tiers. 16 metros are used to derive the Tiered HPI: Boston, NYC, Chicago, DC, Denver, Las Vegas, Los Angeles, San Diego, San Francisco, Miami, Atlanta, Minneapolis, Phoenix, Portland, Seattle, and Tampa, with only 8 metros included at beginning of series. This number grows until 1993, when all 16 metros are reported.

*A seller's market: an economic situation in which supply is limited and sellers can ask for high prices.

**A buyer's market: an economic situation in which supply is abundant and buyers can demand low prices.

Source: CoreLogic Case-Shiller (Data: Dec-20, Pub: Mar-21), compiled by AEI Housing Center (www.AEI.org/housing).

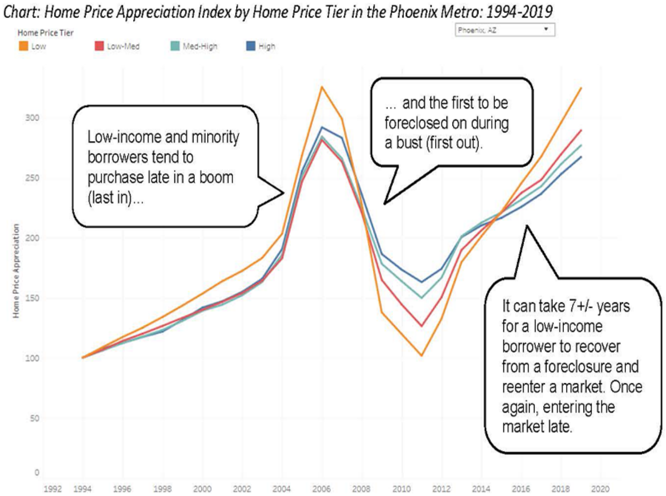
7) The disparate impact of the federal government's legacies during the Financial Crisis – Case Study: Phoenix, AZ

This section demonstrate how the impact of high leverage, provided through foreclosure-prone affordable housing policies, operates to the detriment of low-income homebuyers. The example for the Phoenix, AZ metro is emblematic for most other metros, where supply is also artificially limited.[14]

Due to pro-cyclical policies mainly aimed at low-income borrowers buying in neighborhoods most severely constricted by supply, homes purchased by such households have the highest home price volatility. The home price appreciation (HPA) chart for Phoenix by various price tiers from 1994 to 2019 shows the highest price appreciation during booms and the biggest price correction during the bust for the low price tier. This is emblematic for HPA trends across the nation.

During this current housing boom, the Qualified Mortgage (QM) Rule and the QM Patch also had a disproportionately adverse impact in promoting higher home prices and higher risk outcomes for low-income households, especially ones of color, who tend to purchase lower priced homes with risk-layered mortgages mainly later in the real estate cycle. Once the housing cycle turns, it will be the highly-leveraged borrowers that entered the market late that default first. This is similar to what happened during the last housing boom/bust cycle.[15]

Chart: Home Price Appreciation Index by Home Price Tier in the Phoenix Metro: 1994-2019



Note: The index is set to 100 in 1994.
Source: FHFA and AEI Housing Center.

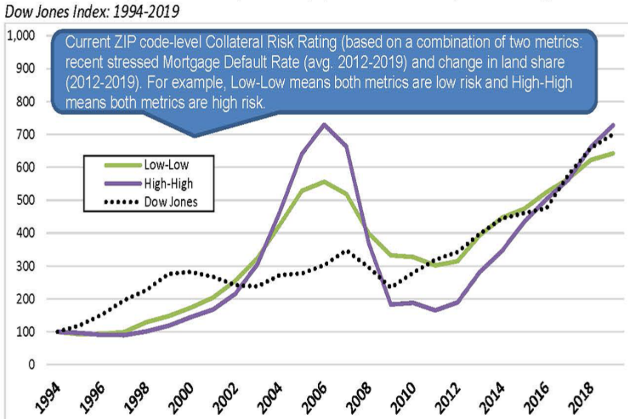
[14] Additional charts on other metros are provided in the appendix.
[15] See for example "The Real Causes – and Casualties --- of the Housing Crisis, Knowledge@Wharton, https://knowledge.wharton.upenn.edu/article/housing-bubble-real-causes/

Since each home purchase is a combination of the structure and land and the structure generally only appreciates at the rate of inflation, these large swings in HPA are reflected in even larger swings in the price of land. (This also means that the share of land of the structure-land package increases.) Previous work found that this increase in the land share of house value during the last boom was a significant predictor of the decline in house prices during the bust.[16] This highlights the value of focusing on land in assessing house-price risk.

Thus, housing policies in the U.S. promote rampant and unknowing land speculation by low-income households. The most important indicator of speculation and home price volatility is a rapid rise in land prices unsupported by an increase in the value of the land driven by the utility of its location, such as the proximity to jobs or good schools.

Nothing strips wealth from low-income homeowners faster than being sandwiched between high LTVs and high debt-to-income ratios (DTIs). High LTVs and high DTIs fuel unknowing land speculation by owners, with minimal resources to fall back on during a negative feedback loop of declining prices and incomes. In certain places as demonstrated by the next chart, the land portion of the home price package is extremely volatile, much more so than the Dow Jones Industrial Average. For individual borrowers, speculation in such a risky asset is made all the more dangerous when combined with high leverage. This is the common theme between Housing Boom 1.0 (1998-2006) and Boom 2.0 (2012 and ongoing). Land speculation is encouraged with leverage vastly higher than would be allowed for stock market purchases on margin. When buying a home, leverage is commonly 30 to 1 or higher, while it is capped at 2 to 1 when buying stocks on margin. The federal government's promotion and financing of land speculation by low-income and minority home buyers is dangerous and creates a disparate impact.

Chart: Home Price Appreciation Index (1994 = 100) by Collateral Risk Group in the Los Angeles Metro and Dow Jones Index: 1994-2019



Note: The index is set to 100 in 1994. The annual Dow Jones Industrial Index is the average of daily close prices adjusted for dividends and splits.
Source: Yahoo Finance, FHFA, and AEI Housing Center.

[16] See https://www.sciencedirect.com/science/article/abs/pii/S0166046216301508?via%3Dihub.

We can demonstrate based on new data that the land share increases are predominantly located in ZIP codes with lower-income borrowers, many of color. The next chart for the Phoenix metro demonstrates this relationship. Each circle represents one ZIP code. The x-axis displays the percentage point increase in a ZIP codes land share change between 2012 and 2019. The y-axis displays a ZIP codes measure of mortgage risk over the same period as measured by the Mortgage Default Rate (MDR).[17] The size of the circle indicates a ZIP codes historical MDR; the larger the circle is, the more mortgages that were originated in 2006 and 2007 defaulted over the ensuing years. The coloring of the dot indicates into which income quintile the borrowers in that ZIP codes fall.

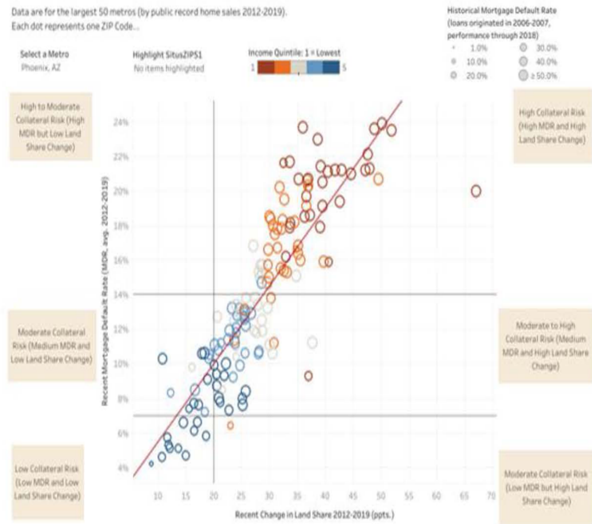
Multiple strong positive relationships emerge. The circles tend to slope upward from lower left to upper right and, as they do, they become larger in size and more orange. The interpretation is that lower income buyers tend to purchase in ZIP codes that have experienced the largest land share increase and the highest levels of mortgage risk. Coincidentally, these are the same ZIP codes that were disproportionally affected by foreclosures when the last housing cycle turned.

It becomes apparent that policies that stimulate even greater availability of leverage during a seller's market will only expose low-income households to heightened risk of default. The risk comes in two forms: Individual exposure due to a greater debt burden from higher mortgage payments, and neighborhood risk due to a concentration of high risk borrowers. As the foreclosure of one borrower can quickly ripple through a neighborhood and depress home values creating a vicious cycle of foreclosures and further price declines.

Thus, high risk loans harm low-income buyers by worsening affordability and increasing foreclosure risk. This is not what responsible access to credit ought to look like. In the past, such policies have created illusory wealth for recent buyers as demonstrated above. The same thing is happening again during the current housing boom. When land prices eventually deflate again, those mostly hurt will be low-income households.

[17] The MDR is a stressed default rate that measures how many borrowers could be expected to default under a severe stress event like the Financial Crisis.

Chart: Relationship between Change in Land Share, Recent Stressed and Historical Mortgage Default Rates, and Borrower Income: Phoenix Metro



* Data with collateral risk ratings are for 148 out of 215 ZIP Codes in the Phoenix, AZ metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 149 ZIP Codes representing around 100% of sales.

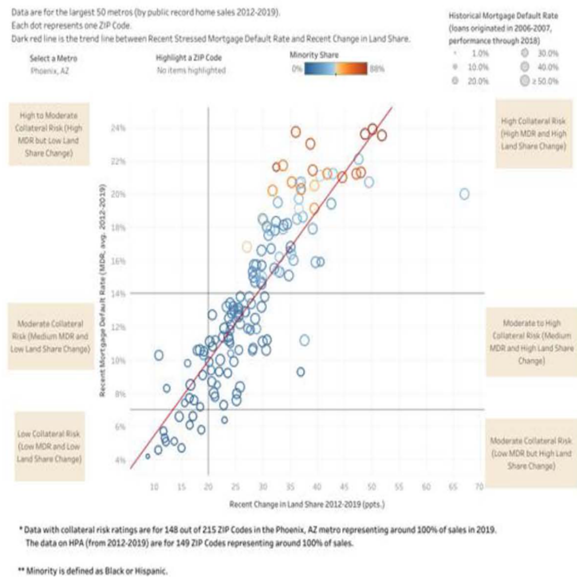
Source: FHFA and AEI Housing Center.

While the chart only shows the trends for the Phoenix metro, the same pattern holds across virtually all of the nation's largest metros (see Appendix B for other metros). Similarly, if one were to swap out borrower income quintile for the minority borrower share, we find mostly borrowers of color purchasing in the very high-risk ZIP codes.

Thus, buyers of color are disproportionally harmed by rising entry-level home prices (see next chart, which is identical to the prior chart except that the coloring of the bubbles is based on the borrower minority share). This is a Fair Housing Act violation.

After connecting the dots, it is hard to imagine how the federal government's actions, which allow and encourage consumers – especially lower income ones and those of color - to borrow multiples of their financial savings at even greater exposure to risk, invest this money in land (an asset far more volatile than the stock market) while telling these consumers that this is the best way to build wealth. Policies like the QM Patch and other demand boosters that disproportionally affect low-income households have failed in the past and they will fail again and they will continue to perpetuate a separate and unequal housing market.

Chart: Relationship between Change in Land Share, Recent Stressed and Historical Mortgage Default Rates, and Borrower Minority Share: Phoenix Metro



Source: FHFA and AEI Housing Center.

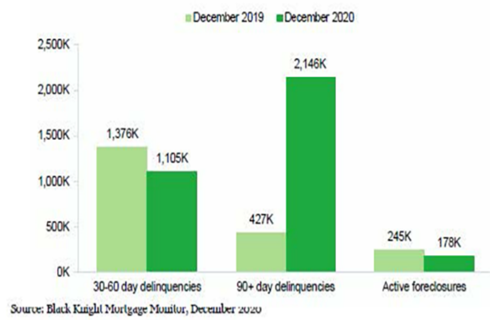
8) **The COVID-19 pandemic has revealed the same fault lines as before the Financial Crisis, thus maintaining the disparate impact federal housing policies have on low-income and minority borrowers.**

A recent report by the Consumer Financial Protection Bureau on *Housing insecurity and the COVID-19 pandemic* found that "the housing crisis is deepening racial inequality: Black and Hispanic homeowners were more than two times as likely to be behind on housing payments as of December 2020."

This ought to come as no surprise given the legacies of the federal government's involvement in the housing market. Since home price inflation has far outpaced growth in incomes, borrowers, especially at the entry-level, have had to take on more debt to afford to purchase a home. The greater level of debt service means that borrowers have less resiliency to fall back on during hard financial times, which can arise from economic conditions, but also personal conditions such as an unexpected illness or a divorce.

Due to the disruptions of the pandemic, the CFPB's report showed the massive increase in 90+ days delinquencies during 2020. Due to forbearance programs, the rise in serious delinquencies has not resulted in a foreclosure wave, but that risk remains when these programs are eventually wound down.

Chart: Year-end Mortgage Delinquencies Comparison 2019 vs. 2020

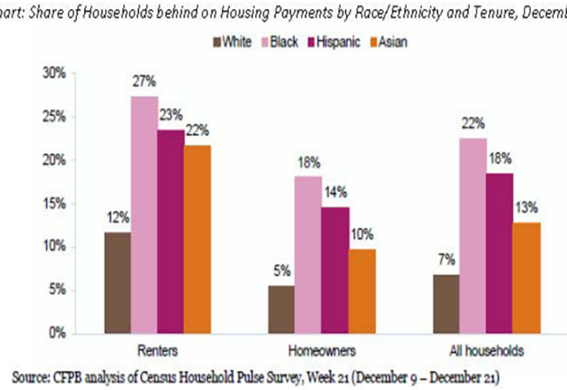


Source: CFPB.

Because of their greater exposure to the job losses in the leisure and hospitality industries, minorities have been hit harder by unemployment and also COVID-19 infections. As pointed out by the CFPB, the unemployment rate for Blacks and Hispanics initially spiked with the onset of Covid-19 and remains at elevated levels today. Furthermore, the gap in the unemployment rate between Blacks and Hispanics to Whites and Asians has further increased.

As a consequence of the economic hardship, minority borrowers have disproportionally fallen behind on housing payments as evidenced by the CFPB's chart on the share of households behind on housing payments by race/ethnicity.

Chart: Share of Households behind on Housing Payments by Race/Ethnicity and Tenure, December 2020



However as becomes clear from our analysis of the underwriting characteristics of the loans in forbearance, forbearance is also associated with loose underwriting that is overleveraging borrowers so that they are unable to withstand an economic shock.

Loan characteristics of agency (Ginnie Mae, Fannie Mae, and Freddie Mac) borrowers in forbearance show that forbearance is associated with higher CLTVs, lower credit scores, higher DTIs, and more generally with entry-level buyers and minorities. Thus, the pandemic is exposing the disparate impact of the federal government's lending practices on these groups.

This finding is consistent with a paper by the Federal Reserve Bank of Philadelphia, which found that "lower-income and minority borrowers have significantly higher nonpayment rates during the COVID-19 pandemic, even after controlling for conventional risk factors."[18]

Table: Borrower Characteristics (at Origination) of the Agency MBS Outstanding Stock: by Forbearance

	In Forbearance	Rest
Combined LTV (Median)	95	80
Credit Score (Median)	685	749
Debt-to-Income Ratio (Median)	42	36
Down Payment (Median)	$12,500	$47,000
% First-time Buyers	42%	24%
MRI**	19%	7%
% Black***	14%	5%
% Hispanic***	15%	9%

Note: Data are for roughly 30.7 million agency purchase and refinance MBS loans that were originated on or after September 2012 and that are currently on the books of Ginnie, Fannie, and Freddie.
** Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.
*** Data are for purchase loans only.
Source: AEI Housing Center.

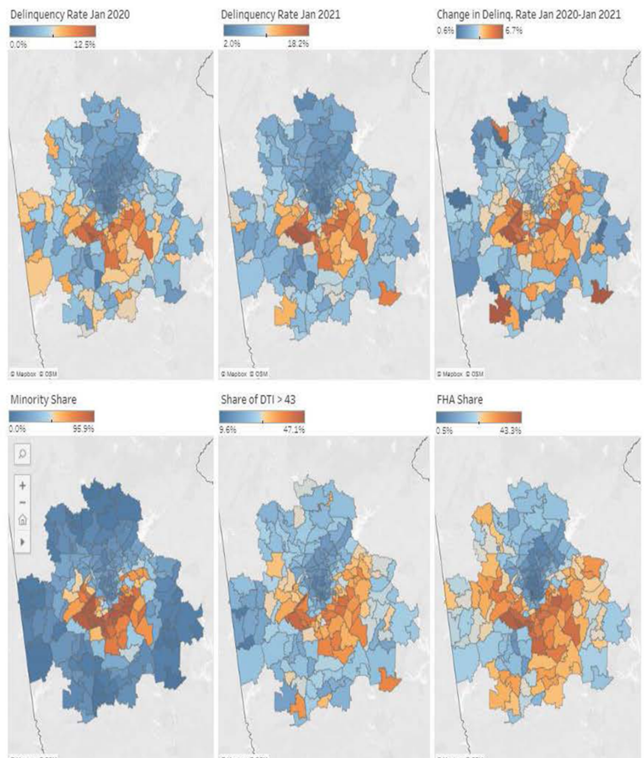
As is evidenced by the three charts on the top panel for the Atlanta, GA metro below, there has been a disproportionate jump in delinquencies (defined as D30+) during the COVID-19 pandemic. D30+ rates were already much higher before the pandemic, but the pandemic has certainly increased the wedge between certain ZIP codes thus revealing a disparate impact.

The three lower panel charts correlate the change in the delinquency rate for each ZIP code with a higher share of minority borrowers, a higher share of borrowers with a DTI > 43%, and a higher share of FHA borrowers.

This is further evidence that in the Atlanta, GA metro the COVID-19 pandemic has revealed the same fault lines as before the Financial Crisis, thus maintaining the disparate impact federal housing policies have on low-income and minority borrowers. Similar patterns hold across the largest 50 metros.

[18] "Inequality in the Time of COVID-19: Evidence from Mortgage Delinquency and Forbearance"

Chart: Delinquency Rates and Other Indicators: Atlanta, GA Metro



Note: We compute ZIP code delinquency rates by loan type from subset of loans from CoreLogic's Loan Level Market Analytics (LLMA) and Black Knight's McDash. We then combine and weight the resulting delinquency rates for an overall delinquency rate using HMDA 2019 data. We focus on around 9,300 ZIP codes in the largest 50 metros.

Source: CoreLogic, Black Knight, HMDA, and AEI Housing Center.

As the Federal Reserve Bank of Philadelphia's working paper states "government and private-sector forbearance programs have mitigated these inequalities in the near term, as lower-income and minority borrowers have taken up the short-term debt relief at higher rates."

However, the pandemic has nevertheless exposed that many low-income and minority borrowers do not have the staying power to withstand financial duress, which can arise from economic conditions, but also personal conditions such as an unexpected illness or a divorce. Therefore, federal zoning and "accessible and affordable housing policies" have a disparate impact on low-income and minority borrowers as they are enabled to take on more debt, which is exposing them to greater risk. The take-away is that we are in the process of again setting up low-income and minority for failure through our housing policies.

9) How zoning is holding back new home construction by the private sector.

To add meaningfully to supply, heavy handed government approaches must be avoided. What is fundamentally a local and state issue can and should be solved at these levels. As the two cases below show, modest changes to zoning can have a big impact on supply. However, this will only materially add to supply when the zoning to higher densities is by-right and localities make infill construction legal, easy, and feasible.

Case Study 1: Palisades Park and Leonia Boroughs in Bergen County, NJ

Most urban and suburban areas across the U.S. have almost uniformly adopted single-family detached zoning for the majority of their residential land. However, some jurisdictions, including a number in Northern New Jersey are an exception to this rule. These permit what we call light-touch density (LTD), which we define as small-lot single-family houses, townhouses, duplexes, triplexes, and fourplexes. This provides the opportunity for a natural experiment.

We focus on two landlocked boroughs with relatively little empty land in Bergen County, NJ: Palisades Park and Leonia.

Palisades Park first adopted a zoning ordinance in 1939, when policymakers chose to implement combined one- and two-family zoning districts for nearly the entire jurisdiction with no zones that exclusively permit single-family detached homes. Nonetheless, market forces and land prices led Palisades Park to be initially developed primarily with single-family detached housing. However, as home prices and land values increased, Palisades Park saw progressively more extensive two-family structures, especially duplex redevelopment.

Leonia, took a different path, zoning almost all of its residential land for single-unit structures only. Its small areas zoned for multifamily development are mostly pushed to the edges of the borough.[19] This is in spite of the fact that the average lot size in Leonia is more than sufficient to accommodate duplexes (Palisades Park undertook its transformation with an average lot size of 5,300 square feet, compared to 8,000 for Leonia). Leonia has been generally successful at achieving its stated objective of preventing "out-of-character development" through its zoning rules.[20] The single-family housing stock, meanwhile,

[19] What little 2-4 unit development the borough does have should not be taken as any indication of the Leonia's friendliness to denser development. In 1975, the New Jersey Supreme Court pronounced The Mount Laurel doctrine, an interpretation of the state's constitution which required municipalities to use their zoning powers to affirmatively expand affordable housing opportunities for low- and moderate-income families. Leonia was forced to allow small pockets of multifamily in order to meet Mt. Laurel obligations. See https://fairsharehousing.org/mount-laurel-doctrine/.

[20] Ibid (pg. 6)

has been stagnant and aging (see right panel chart below).[21]

The housing outcomes of these two landlocked boroughs with relatively little empty land are telling:

- Since 1940, Palisades Park's population has grown 154%, Leonia's only 57%.
- This is in part due to the fact that 51% of Palisades Park's housing stock has been built post-1969. In Leonia, only 24% has been added since 1969;
- Palisades Park experienced a 24% increase in its housing stock over the period from 2000 to 2013, this share was flat for Leonia.

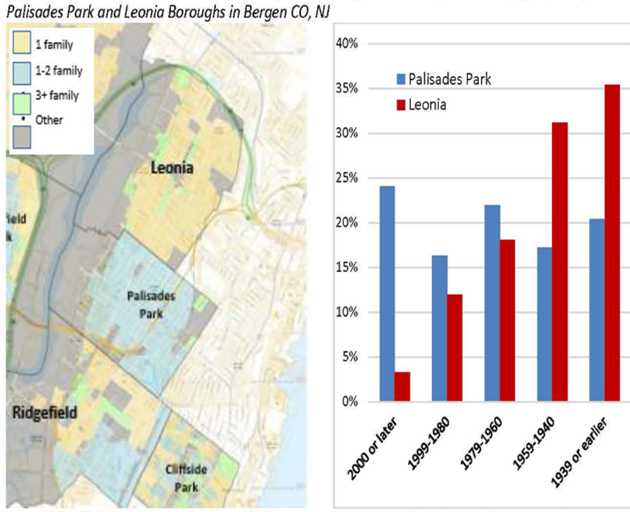
The private redevelopment of 1-unit structures into duplexes accelerated greatly during the 1990s and 2000s, when home price increases (or really land price increases) made it economical to convert to a higher and better use of the land. Today, only 25% of the 1-4 unit single family housing stock in Palisades Park is detached 1-unit, while nearly 50% are 2-unit, mostly side-by-side duplexes. The expansion in the 2000s can be seen clearly on the right chart below, which shows that Palisades Park has a higher share of houses built post-2000 than Leonia.

The breadth of redevelopment has provided the borough a newer housing stock. Through prudent city planning, the borough's infrastructure has been able to handle the increased population. The resulting higher population base supports a vibrant commercial district. Thus, Palisades Park is contributing to regional affordability by accommodating population growth and the filtering process that its new construction facilitates.

This case study provides a roadmap as to how LTD structures can play an important part in accommodating the need for additional housing in high-demand areas. However, by-right LTD zoning by itself is not enough. Only localities which make infill LTD construction legal, easy, and feasible will experience anything like the transformation that Palisades Park has seen.

[21] While residents often describe Leonia's single-unit houses as unique and beautiful, this requires strict regulation of land use by local policymakers. An aging housing stock potentially constitutes a safety risk for the inhabitants due to common contaminants including lead and asbestos. Furthermore, new homes offer advantages in terms of energy efficiency and handicap accessibility. Anecdotally, our on-site interviews noted that some builders who redevelop single-unit homes in Palisades Park find that many of the homes they purchase have serious structural problems.

Map and Chart: Residential Zones (left panel) and Share of Structures by Year Built (right panel): Palisades Park and Leonia Boroughs in Bergen CO, NJ

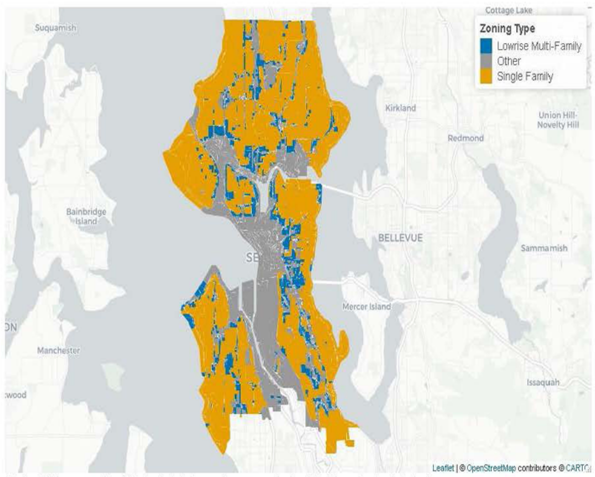


Note: "Other" is industrial or land not used for housing. Source: 2018 5-year ACS and AEI Housing Center.
Source: Most recent borough zoning maps and AEI Housing Center.

Case Study 2: City of Seattle, WA

The City of Seattle, WA has many different zoning areas. The simplified zoning map below focuses on two zones in particular: Single-family (SF), which allows only 1-unit detached structures, and Low-rise Multifamily (LRM), which allows for small multifamily structures with higher densities. Together these two zones account for 78% of all residential units in the City of Seattle, which allows for a natural experiment on the impact of zoning on new construction activity.

Map: Simplified City of Seattle Zoning Map



Note: Other consist of industrial, downtown, major institutions, industrial, etc.
Source: City of Seattle and AEI Housing Center.

As seen from the table below, the SF zone contains almost 3 times as many units as the LRM zone. However in terms of new construction activity, the LRM zone has about twice as many new units build as the SF zone. The new construction share for homes built in 2000 or later added about 7% to the existing stock in the SF zone, but added a whopping 35% to existing stock in the LRM zone and 10% was added to stock just since 2015. This should not come as a surprise given the LRM zone allows private owners to convert to a higher and better use of the land, which means that older 1-unit homes may be torn down and replaced with duplexes, triplexes, or other higher unit count structures.

It is also illustrative to compare what is being built in each of the two zones. In the SF zone, 1-unit homes are either replaced with newer, much larger 1-unit homes (2,600 sq. feet of the new ones vs 1,800 of the existing ones) and at much higher costs ($1.25 million for the new ones vs $875,000 of existing ones). In the LRM zone, lots that had a 1-unit structure are generally replaced with single-family attached townhomes. These townhomes are only marginally larger in sq. feet than the existing stock of detached homes and come at only a modest price premium over existing homes in the same zone. This is a noteworthy accomplishment given the combined cost of land and new construction.

Similar to Palisades Park, the conversion becomes economical for the private sector when land prices rise. However, the conversion can only occur if the conversion to higher densities is by-right under the zoning law and only when localities make infill construction legal, easy, and feasible.

A simple back of the envelop calculation suggests that if the City of Seattle could up-zone all of its SF zone to a LRM zone, and 20% of the 1-unit structures were replaced with duplexes, private enterprise without subsidies could potentially add up to 25,000 housing units or 11% to the housing stock over a decade.[22]

Table: City of Seattle Existing Housing Stock and New Construction Activity by Zone

Zone	# of units	# of 1-units	Median Lot Size	Median Living Area	Median Price (in $)*
All units					
Low-rise Multifamily	46,000	9,200	4,500	1,300	715,000
Single Family	124,000	116,000	5,700	1,800	875,000
Built in 2000 or more recent					
Low-rise Multifamily	16,000	1,200	1,400	1,400	765,000
Single Family	8,800	7,700	5,100	2,700	1,245,000
Built in 2015 or more recent					
Low-rise Multifamily	4,600	300	1,300	1,500	845,000
Single Family	2,700	2,000	5,000	2,600	1,300,000

*Based on an Automated Valuation Model from Dec. 2020.
Note: Values are slightly rounded for readability.
Source: AEI Housing Center.

10) Policy solutions

Zoning policies espoused by the federal government and foreclosure-prone affordable housing policies have been major contributors to the separate and unequal housing legacy, in which we find ourselves today. These two policies continue to contribute to disparate outcomes and put low-income and minority borrowers needlessly in harm's way and severely limit their opportunities to build generational wealth.

Most importantly these federal policies on affordable housing policies have served to perpetuate the legacy of racial discrimination and socio-economic stratification in housing and have not built generational wealth. Due to their ongoing impact, there is a growing danger that housing is going to become even more separate and unequal. This is not a viable path forward.

Observations made in 2014 by Edward DeMarco (former Federal Housing Finance Agency acting director) and Joseph Smith (monitor of the 2012 National Mortgage Settlement) sum up well the policy challenges we face today in crafting principles for policy reform:

> *As a country, it's time to rethink some basic things about housing policy. So much of it is about increasing debt, rather than building equity . . . and subsidizing the cost of that debt. Homeownership is about owning a home, not having a mortgage on it. We've seen the tremendous financial damage to families of getting overleveraged: Housing prices can come down, and in a recession people do get laid off. [DeMarco]*
>
> *Is the thirty year fixed-rate mortgage what we need? Contrary to the opinion of many people*

[22] Assumes a 20% conversion rate over 10 years in the SF zone, which is about the pace of the conversation rate between 2015 and 2020 in the LRM zone. Assumes a teardown will be replaced with a duplex. The housing stock in the city is about 220,000 units, including areas outside of SF and LRM zones.

> *whom I admire and respect, the thirty-year fixed rate mortgage is neither a Constitutional nor [a] human right ... a lot of things can happen to a borrower over those thirty years—job loss, health problems, divorce. [Smith]*

One could also add that instead of a narrow focus on just getting people into homeownership, more focus should be placed on protecting consumers and building wealth, which would by giving them a fighting chance to stay in their homes for the long run, to actually build equity, and not to have it all wiped out when the housing cycle turns.

Also we must be wary of government programs that promise an easy fix. Many programs have been tried and have not produced the desired results. In addition, unintended consequences can and have arisen from them. Take the case of LIHTC developments in Chicago, which has led to a concentration of these units in high-poverty majority Black areas on the South and West sides.

While there are unfortunately no quick fixes to correct the zoning and affordable housing policies that have over decades helped to create a separate and unequal housing market today, the following proposals are based on the reform principles outlined above and are designed to avoid unintended consequences. They would reduce leverage, add to supply, and allow regulators and private actors to identify mortgage market participants that engage in racial bias.

Today Congress is considering new affordable housing proposals providing hundreds of billions of new funding. However, poorly designed housing assistance programs have not served this country well. We must not repeat the mistakes of the past related to poorly designed affordable housing policies, which have made housing separate and unequal:

- Relaxing underwriting requirements in an overheated housing market has been tried many times since 1954 and has not worked.
  - Given the uncertain and overheated housing market, maintain FHA's current level of mortgage insurance premiums (MIP). Secretary Fudge has for the moment ruled out a cut to the MIP, but if a cut were to be implemented during an overheated housing market, it would have similar consequences as the 2015 MIP cut, which drove up prices and did not materially expand homeownership.
  - Refrain from providing first-time buyer down payment assistance in an overheated housing market.
  - Refrain from forgiving student loan debt during an overheated housing market, which would increase first-time buyer buying power and increase demand, which would result in higher home prices.
  - The CFPB's 2020 replacement of the QM rule with a new standard based on the Average Prime Offer Rate) would similarly relax underwriting requirements and thus promote higher risk loans and unsustainable home price appreciation. The same applies to an expansive stand-alone DTI limit. The CFPB is currently pondering delaying the rule's implementation. Delaying the implementation can only be justified if, and only if, the revised rule will base QM eligibility on a Mortgage Default Rate (MDR) threshold. The MDR is a comprehensive stressed default rate, which represents the worst-case scenario stress test similar to a car crash test or a hurricane safety rating. The MDR is effective and meets all three of the CFPB's criteria for such a rule (1. less impairment of responsible, affordable access to credit, 2. a more holistic and flexible measure of ability to repay, and 3. less burden.) The MDR would also help end policies, especially risk

layering, that have had a disparate impact on low-income households, especially ones of color, and would therefore affirmatively further fair housing under the Fair Housing Act.[23]

- End once and for all the dangerous bidding wars between FHA and the GSEs for low-income and minority borrowers, which leads a race to the bottom in terms of lending standards.
- Stop pouring tens of billions of dollars to public housing, in a futile effort to get public housing right.
- Stop providing tens of billions in subsidies to build or rehabilitate millions of homes, in a futile effort to subsidize our way out of our housing supply problems.
- Stop expanding the LIHTC program which has worked to reinforce racial discrimination and crowd out naturally affordable housing that could be built by the private sector.

We know why these mistakes and failures happen. Government involvement in lending and housing development subsidies set in motion political pressures for increasingly risky lending, such as "affordable loans" to constituent groups or expanding programs like LIHTC that enrich developers, but keep tenants impoverished. The liberalization of credit terms creates demand pressure, which easily becomes capitalized into higher prices when undertaken in a market with constrained or inelastic supply. The actual beneficiaries of these price inflating policies tend to be existing homeowners, real estate brokers, builders, developers, building labor, the suppliers of building materials, and speculators.

Besides the impact that single-family policies have in driving home prices higher, the wrong policy choices would risk putting minority and first-time home buyers in homes with high leverage and when they might not be quite ready. A dip in the market would wipe out both earned and paper equity and the possibility of creating generational wealth. It would also have a deleterious impact on credit scores, thereby delaying market reentry.

A sounder approach for the federal government's involvement in single-family financing would be to focus on wealth building, not debt, as this would sustainably build generational wealth for low-income and minority households through home ownership.

- One should buy a home one can comfortably afford, with a 20-year term to minimize risk of default and pay off principal more rapidly.
- A shorter term loan builds generational wealth as the earlier pay-off date provides access to additional cash flow to pay children's post-high school education, and fund retirement.
- Any financial assistance provided should build wealth using a 20-year loan, not subsidize debt using a 30-year term loan.
    - The 20-year term reduces default incidence and limits the subsidy from being capitalized into higher prices.
    - Assistance should be narrowly targeted to lower income, first-generation homebuyers, who as a group have historically had greater difficulty accumulating generational wealth.
    - The 20-year term addresses the need to sustainably expand the credit box so as to grow home ownership opportunities, especially for minorities.

[23] In 2020, 70% of FHA purchase loans were risk-layered, defined as a loan having at least three of these four risk factors: CLTV ≥95%, DTI >43%, credit score <660, and a 30 year loan term.

Unleash the private sector to add to supply by restoring owners' property rights.
Reversing the effects of 100 year old policies on zoning will take decades. Here are sensible steps for state and local governments to take:

- Increase supply and reduce income stratification by legalizing Light Touch Density, defined as making 2, 3, and 4 unit and single-family attached housing legal in 1-unit single-family detached neighborhoods. This would return property rights to owners, who would be able to realize the highest and best use of their land. This would unleash the private sector to undertake new construction activity in places with the greatest demand for new housing.
- Allow extra rooms in homes to be rented out.
- Promote walkable neighborhoods with a mix of residential and commercial properties.

Identify and prosecute bad actors that propagate racial discrimination using sound data analysis, while allowing others to defend themselves using the same approach.

- Maintain HUD's 2020 disparate impact rule to identify a disparate impact by lenders.
    - Use a statistical test developed by the AEI Housing Center to identify racially biased lenders. This test requires no new data collection and we stand ready to help HUD or the CFPB to implement it.
    - Mortgage lenders, including smaller lenders, should have the option to use a credit outcomes-based statistical approach as a valid defense. This improves the fairness, operation, and statistical basis of the rule.
    - The ability to use credit outcomes would enhance clarity and reduce uncertainty.
- While our research has found no evidence of systemic racism on the part of residential real estate appraisers or FHA's lenders, we have developed a statistical test to identify racially biased appraisers and lenders—that is bad actors.
    - This test requires no new data collection and we stand ready to help regulators and individual firms with access to even more data than we have to easily test for appraiser or lender bias.
    - Using this methodology one would be able to confirm the presence or lack of a statistically significant pattern of bias being experienced by the protected class, by rendering outcomes directly comparable between the protected and non-protected classes.

Provide and support economically sound opportunities for income and wealth growth for lower income people.
Several such policy solutions, which might be explored, are:

- Encouraging two parents in households with children
    - Child tax credits should focus on low-income households and should reward having two parents in the household.
- Enact occupational licensing reforms and allow small businesses to be run out of one's home
    - This would give families another path to upward mobility.
- More economical childcare by rolling back burdensome government regulations
    - This would allow parents to decide whom they trust with their children.
- Real school choice for access to quality elementary and secondary education
    - Expand charter schools and voucher programs.
    - Parents would not have to buy a more expensive home to get access to a better education.
- Improving access to technical and apprenticeship training

- Public-private partnerships to promote training and skill development.
- Provide flexible vouchers to low-income students, thereby letting them spend the money in a way to quickly and efficiently gain job skills.

Appendix A: Housing Market Indicators for the states that you represent (in alphabetical order)

Alabama

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Alabama

The Paradox of Accessible Lending:

When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

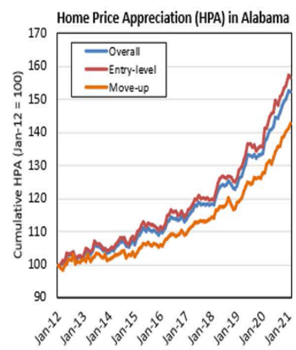
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in Alabama has totaled 52%. In the entry-level, HPA has totaled 57%, but only 43% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $9,700 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 11.0%, up from 9.2% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.



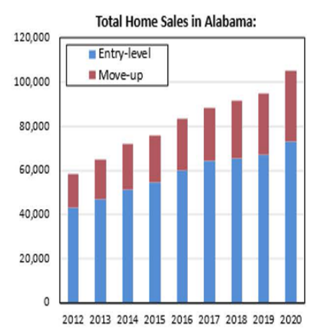
2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Alabama:

2020	All	FHA
Note Rate	3.13	3.13
Combined LTV	95	99
Credit Score	733	669
Debt-to-Income	36	42
Down payment (DP)	$9,000	$1,930
% with DP assistance	N/A	24%
% FTBs	45%	69%
MRI*	9.7%	25.6%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

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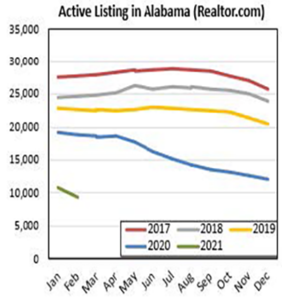
Housing Market Indicators for Alabama

3 Supply

Strong demand and lack of new supply are depleting inventories in Alabama. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Alabama (Realtor.com)



Months supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Alabama	2019	2020
Entry-Level	2.8	1.9
Move-Up	10.1	6.8
Overall	3.3	2.2

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

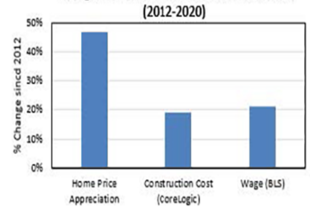
Since 2012, Alabama has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

Source: AEI Housing Center, www.aei.org/housing.

4 Market Fundamentals

The Alabama housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in Alabama (2012-2020)



5 Recap

Alabama has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

AEI Housing Center

Arizona

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Arizona

The Paradox of Accessible Lending:

When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

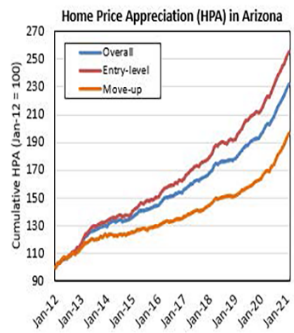
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in Arizona has totaled 132%. In the entry-level, HPA has totaled 155%, but only 97% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $66,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 17.6%, up from 9.6% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.



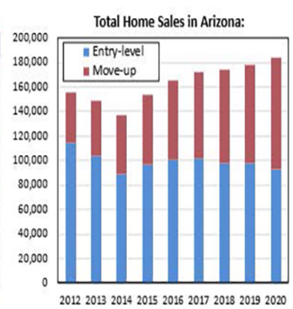
2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2014.

Median Borrower Statistics in Arizona:

2020	All	FHA
Note Rate	3.25	3.25
Combined LTV	95	99
Credit Score	744	670
Debt-to-Income	39	44
Down payment (DP)	$21,000	$2,600
% with DP assistance	N/A	24%
% FTBs	47%	81%
MRI*	7.8%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

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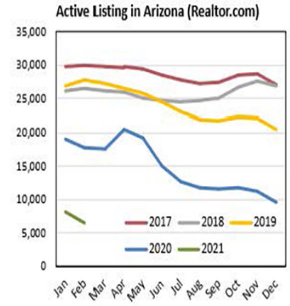
Housing Market Indicators for Arizona

3 Supply

Strong demand and lack of new supply are depleting inventories in Arizona. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Arizona (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Arizona	2019	2020
Entry-Level	1.3	0.9
Move-Up	5.4	3.2
Overall	1.9	1.2

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

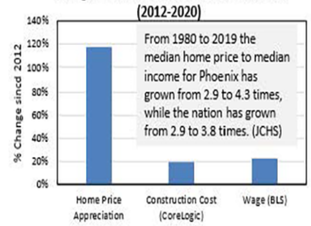
Since 2012, Arizona has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

Source: AEI Housing Center, www.aei.org/housing.

4 Market Fundamentals

The Arizona housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in Arizona (2012-2020)



5 Recap

Arizona has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

AEI Housing Center

Georgia

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Georgia

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

1 Home Prices and Affordability

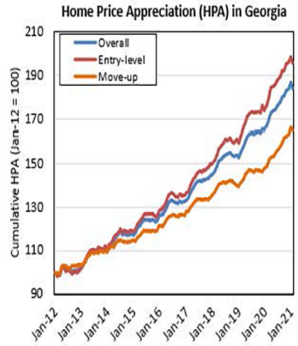
Since 2012, home price appreciation (HPA) in Georgia has totaled 84%. In the entry-level, HPA has totaled 96%, but only 65% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $23,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 9.8%, up from 7.8% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.

Home Price Appreciation (HPA) in Georgia



2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Georgia:

2020	All	FHA
Note Rate	3.13	3.25
Combined LTV	95	99
Credit Score	731	667
Debt-to-Income	39	45
Down payment (DP)	$12,000	$2,300
% with DP assistance	N/A	28%
% FTBs	52%	75%
MRI*	9.7%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.

Total Home Sales in Georgia:

Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

Additional data and methodology available upon request.
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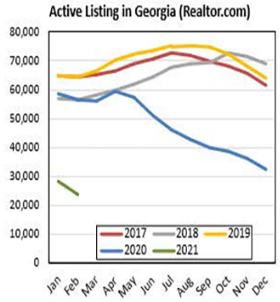
Housing Market Indicators for Georgia

3 Supply

Strong demand and lack of new supply are depleting inventories in Georgia. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Georgia (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Georgia	2019	2020
Entry-Level	3.7	2.6
Move-Up	12.9	8.4
Overall	4.7	3.2

* Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

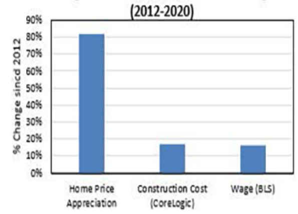
Since 2012, Georgia has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

Source: AEI Housing Center, www.aei.org/housing.

4 Market Fundamentals

The Georgia housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in Georgia (2012-2020)



5 Recap

Georgia has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

AEI Housing Center

Idaho

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Idaho

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

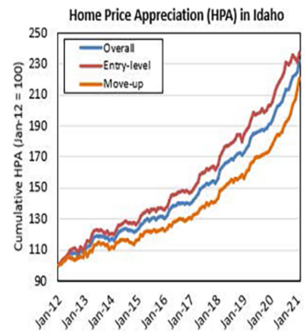
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in Idaho has totaled 132%. In the entry-level, HPA has totaled 138%, but only 121% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying 20,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 19.7%, up from 10.2% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.



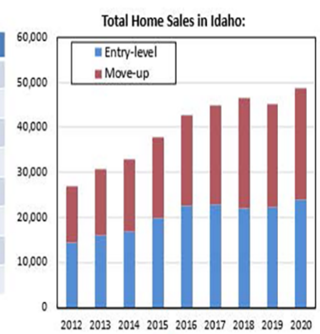
2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Idaho:

2020	All	FHA
Note Rate	3.12	3.38
Combined LTV	90	99
Credit Score	748	667
Debt-to-Income	38	46
Down payment (DP)	$30,000	$2,600
% with DP assistance	N/A	21%
% FTBs	41%	75%
MRI*	6.7%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

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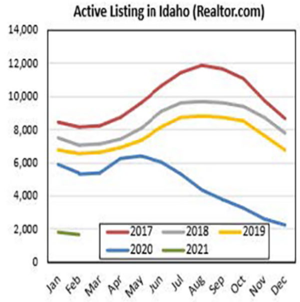
Housing Market Indicators for Idaho

3 Supply

Strong demand and lack of new supply are depleting inventories in Idaho. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Idaho	2019	2020
Entry-Level	1.9	1.1
Move-Up	9.3	6.8
Overall	2.6	1.6

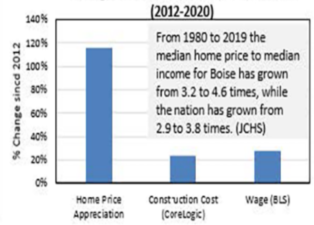
*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Idaho has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

4 Market Fundamentals

The Idaho housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.



5 Recap

Idaho has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

Source: AEI Housing Center, www.aei.org/housing

AEI Housing Center

Kansas

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Kansas

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

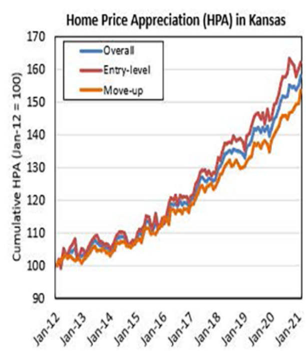
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in Kansas has totaled 58%. In the entry-level, HPA has totaled 62%, but only 54% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $9,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 9.1%, up from 6.5% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.



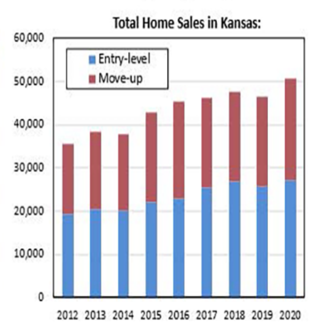
2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Kansas:

2020	All	FHA
Note Rate	3.13	3.25
Combined LTV	95	99
Credit Score	739	667
Debt-to-Income	36	42
Down payment (DP)	$11,000	$1,800
% with DP assistance	N/A	28%
% FTBs	50%	75%
MRI*	8.7%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

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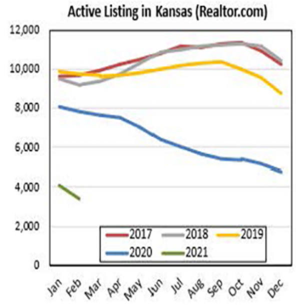
Housing Market Indicators for Kansas

3 Supply

Strong demand and lack of new supply are depleting inventories in Kansas. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Kansas (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Kansas	2019	2020
Entry-Level	2.7	1.8
Move-Up	6.4	4.3
Overall	2.9	1.8

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Kansas has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

4 Market Fundamentals

The Kansas housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in Kansas (2012-2020)

5 Recap

Kansas has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

Louisiana

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Louisiana

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

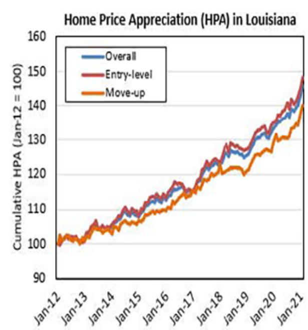
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in Louisiana has totaled 46%. In the entry-level, HPA has totaled 48%, but only 40% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $8,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 8.7%, up from 6.7% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.



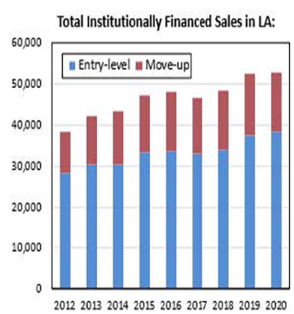
2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing since 2012.

Median Borrower Statistics in Louisiana:

2020	All	FHA
Note Rate	3.13	3.25
Combined LTV	97	99
Credit Score	723	668
Debt-to-Income	38	44
Down payment (DP)	$6,500	$2,00
% with DP assistance	N/A	24%
% FTBs	55%	73%
MRI*	10.5%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

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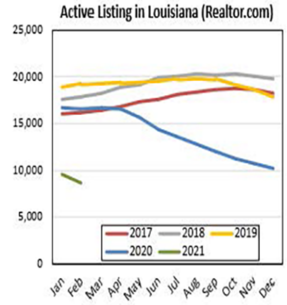
Housing Market Indicators for Louisiana

3 Supply

Strong demand and lack of new supply are depleting inventories in Louisiana. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Louisiana (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Louisiana	2019	2020
Entry-Level	3.8	2.8
Move-Up	11.4	8.5
Overall	4.0	2.9

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Louisiana has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

Source: AEI Housing Center, www.aei.org/housing.

4 Market Fundamentals

The Louisiana housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in Louisiana (2012-2020)

5 Recap

Louisiana has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

AEI Housing Center

Maryland

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Maryland

The Paradox of Accessible Lending:

When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

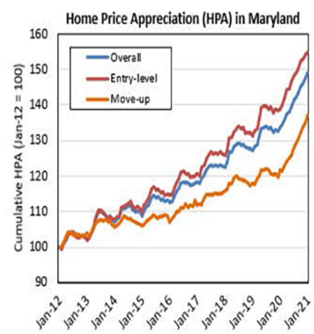
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in Maryland has totaled 49%. In the entry-level, HPA has totaled 55%, but only 37% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $33,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in January 2021 was 11.7%, up from 5.0% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.



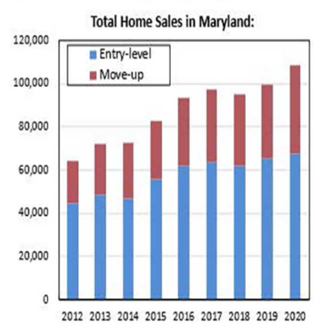
2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Maryland:

2020	All	FHA
Note Rate	3.13	3.25
Combined LTV	95	99
Credit Score	740	673
Debt-to-Income	39	45
Down payment (DP)	$14,000	$3,000
% with DP assistance	N/A	31%
% FTBs	58%	79%
MRI*	9.7%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

Additional data and methodology available upon request.
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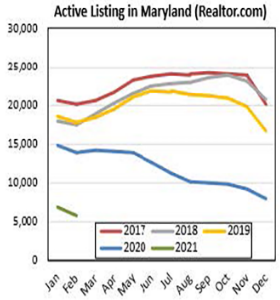
Housing Market Indicators for Maryland

3 Supply

Strong demand and lack of new supply are depleting inventories in Maryland. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Maryland (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Maryland	2019	2020
Entry-Level	2.5	1.5
Move-Up	6.0	3.2
Overall	2.7	1.6

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

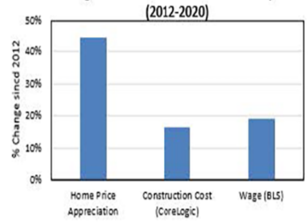
Since 2012, Maryland has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

Source: AEI Housing Center, www.aei.org/housing.

4 Market Fundamentals

The Maryland housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in Maryland (2012-2020)



5 Recap

Maryland has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

AEI Housing Center

Massachusetts

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Massachusetts

The Paradox of Accessible Lending:

When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

1 Home Prices and Affordability

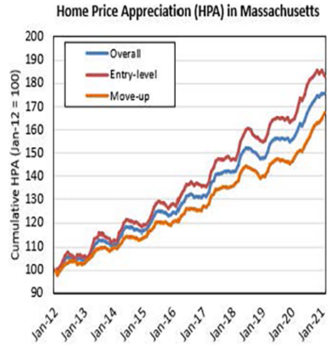
Since 2012, home price appreciation (HPA) in Massachusetts has totaled 76%. In the entry-level, HPA has totaled 83%, but only 67% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $30,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 11.9%, up from 5.9% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.

Home Price Appreciation (HPA) in Massachusetts



2 Demand

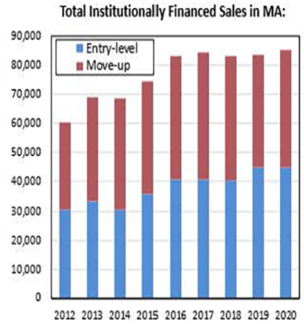
Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Massachusetts:

2020	All	FHA
Note Rate	3.0	3.13
Combined LTV	90	99
Credit Score	752	675
Debt-to-Income	38	47
Down payment (DP)	$46,000	$4,000
% with DP assistance	N/A	30%
% FTBs	57%	81%
MRI*	6.4%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.

Total Institutionally Financed Sales in MA:



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

Additional data and methodology available upon request.
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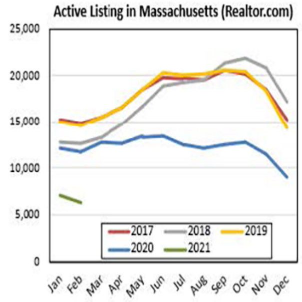
Tobias Peter - tobias.peter@aei.org

Housing Market Indicators for Massachusetts

3 Supply

Strong demand and lack of new supply are depleting inventories in Massachusetts. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Massachusetts (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Massachusetts	2019	2020
Entry-Level	1.5	1.1
Move-Up	4.5	3.0
Overall	2.3	1.6

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

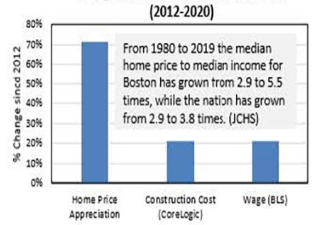
Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Massachusetts has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

4 Market Fundamentals

The Massachusetts housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in MA (2012-2020)



5 Recap

Massachusetts has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the feceral government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

Minnesota

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Minnesota

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

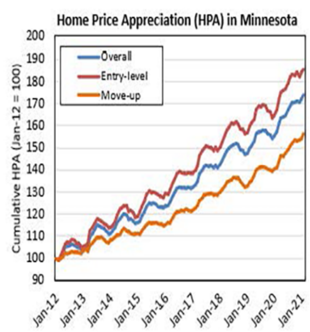
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in Minnesota has totaled 74%. In the entry-level, HPA has totaled 85%, but only 57% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $34,500 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 10.5%, up from 4.9% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.



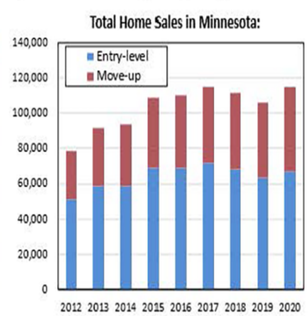
2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Minnesota:

2020	All	FHA
Note Rate	3.12	3.25
Combined LTV	95	99
Credit Score	751	672
Debt-to-Income	37	45
Down payment (DP)	$19,000	$2,500
% with DP assistance	N/A	26%
% FTBs	51%	79%
MRI*	7.0%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

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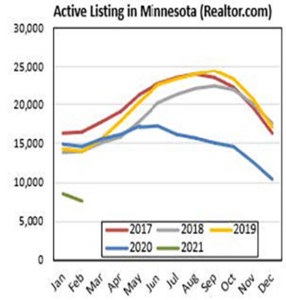
Tobias Peter - tobias.peter@aei.org

Housing Market Indicators for Minnesota

3 Supply

Strong demand and lack of new supply are depleting inventories in Minnesota. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Minnesota (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Minnesota	2019	2020
Entry-Level	1.9	1.4
Move-Up	5.7	4.3
Overall	2.5	1.8

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

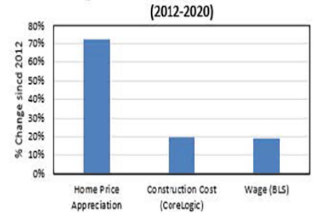
Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Minnesota has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

4 Market Fundamentals

The Minnesota housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in Minnesota (2012-2020)



5 Recap

Minnesota has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

Montana

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Montana

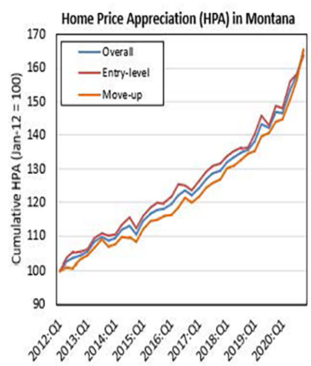
The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in Montana has totaled 65%. In the entry-level, HPA has totaled 64% and 65% in the move-up segment.

Home price appreciation has accelerated over the last year. HPA in 2020:Q4 was 12.5%, up from 8.1% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.



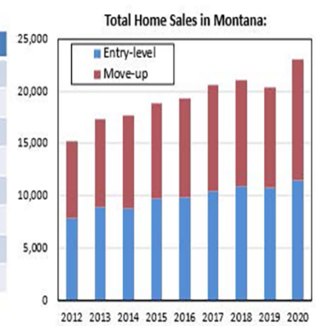
2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Montana:

2020	All	FHA
Note Rate	3.00	3.13
Combined LTV	90	99
Credit Score	755	676
Debt-to-Income	37	44
Down payment (DP)	$28,000	$2,600
% with DP assistance	N/A	29%
% FTBs	43%	76%
MRI*	6.4%	22.7%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

Additional data and methodology available upon request.
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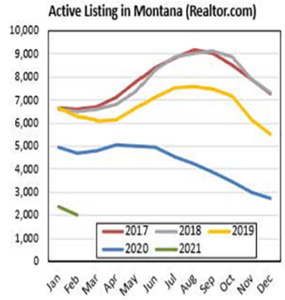
Housing Market Indicators for Montana

3 Supply

Strong demand and lack of new supply are depleting inventories in Montana. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Montana (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Montana	2019	2020
Entry-Level	3.5	2.3
Move-Up	15.9	10.6
Overall	4.7	2.8

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

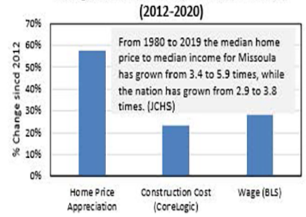
Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Montana has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

4 Market Fundamentals

The Montana housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in Montana (2012-2020)



5 Recap

Montana has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Nevada

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

1 Home Prices and Affordability

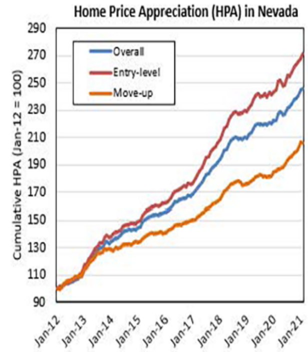
Since 2012, home price appreciation (HPA) in Nevada has totaled 146%. In the entry-level, HPA has totaled 171%, but only 106% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $70,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 10.3%, up from 5.3% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.

Home Price Appreciation (HPA) in Nevada



2 Demand

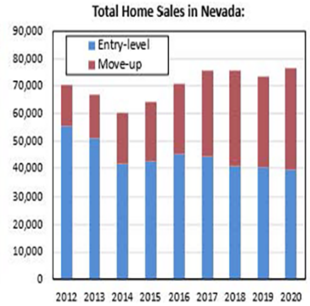
Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2015.

Median Borrower Statistics in Nevada:

2020	All	FHA
Note Rate	3.13	3.25
Combined LTV	95	99
Credit Score	736	678
Debt-to-Income	40	45
Down payment (DP)	$19,000	$3,000
% with DP assistance	N/A	28%
% FTBs	53%	84%
MRI*	9.3%	24.2%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.

Total Home Sales in Nevada:



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

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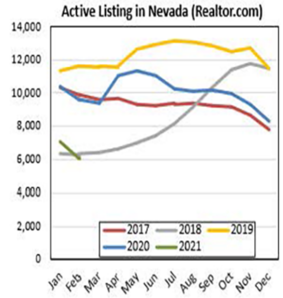
Housing Market Indicators for Nevada

3 Supply

Strong demand and lack of new supply are depleting inventories in Nevada. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Nevada	2019	2020
Entry-Level	2.1	1.9
Move-Up	5.8	3.7
Overall	2.4	2.0

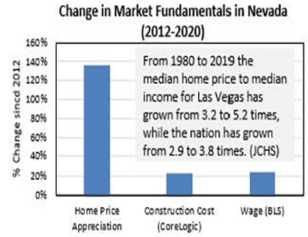
*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Nevada has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

4 Market Fundamentals

The Nevada housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.



5 Recap

Nevada has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

New Jersey

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for New Jersey

The Paradox of Accessible Lending:

When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

1 Home Prices and Affordability

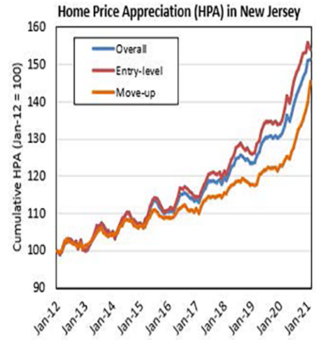
Since 2012, home price appreciation (HPA) in New Jersey has totaled 51%. In the entry-level, HPA has totaled 54%, but only 46% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $16,500 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 15.1%, up from 6.3% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.

Home Price Appreciation (HPA) in New Jersey



2 Demand

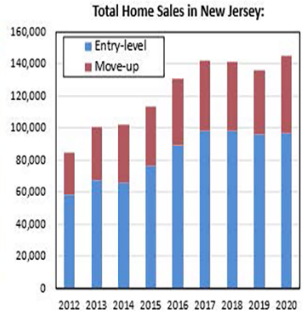
Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in New Jersey:

2020	All	FHA
Note Rate	3.13	3.13
Combined LTV	90	99
Credit Score	747	675
Debt-to-Income	39	47
Down payment (DP)	$36,000	$3,500
% with DP assistance	N/A	30%
% FTBs	58%	81%
MRI*	6.7%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.

Total Home Sales in New Jersey:



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

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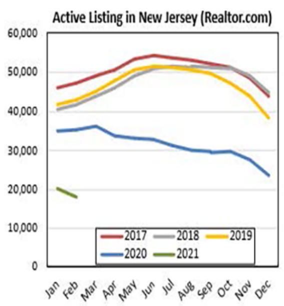
Housing Market Indicators for New Jersey

3 Supply

Strong demand and lack of new supply are depleting inventories in New Jersey. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in New Jersey	2019	2020
Entry-Level	3.6	2.5
Move-Up	9.3	6.2
Overall	4.4	3.0

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

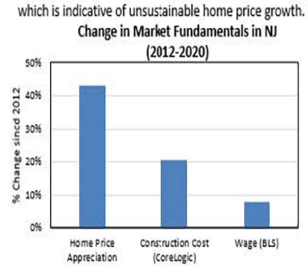
Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, New Jersey has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

Source: AEI Housing Center, www.aei.org/housing.

4 Market Fundamentals

The New Jersey housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.



5 Recap

New Jersey has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

AEI Housing Center

North Carolina

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for North Carolina

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

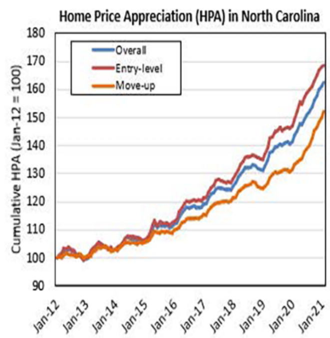
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in North Carolina has totaled 63%. In the entry-level, HPA has totaled 69%, but only 52% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $18,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 13.3%, up from 8.0% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.



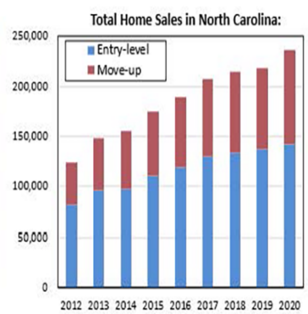
2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in North Carolina:

2020	All	FHA
Note Rate	3.13	3.25
Combined LTV	95	99
Credit Score	747	666
Debt-to-Income	37	43
Down payment (DP)	$17,500	$2,300
% with DP assistance	N/A	26%
% FTBs	45%	70%
MRI*	7.0%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

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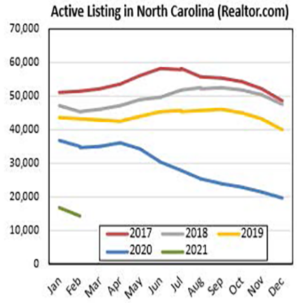
Housing Market Indicators for North Carolina

3 Supply

Strong demand and lack of new supply are depleting inventories in North Carolina. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in North Carolina (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in North Carolina	2019	2020
Entry-Level	2.0	1.3
Move-Up	9.5	5.8
Overall	2.9	1.9

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

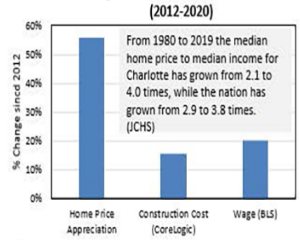
Since 2012, North Carolina has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

Source: AEI Housing Center, www.aei.org/housing.

4 Market Fundamentals

The North Carolina housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in NC (2012-2020)



5 Recap

North Carolina has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

AEI Housing Center

North Dakota

AEI Housing Center

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Housing Market Indicators for North Dakota

The Paradox of Accessible Lending:

When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

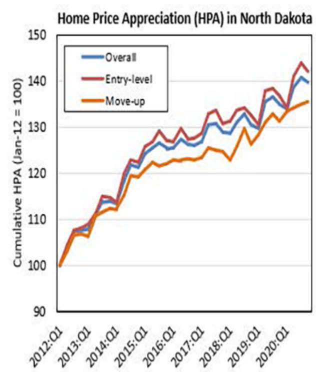
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in North Dakota has totaled 40%. In the entry-level, HPA has totaled 42%, but only 35% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $10,800 less for their home.

Home price appreciation has accelerated over the last year. HPA in 2020:Q4 was 3.5%, up from 3.4% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.



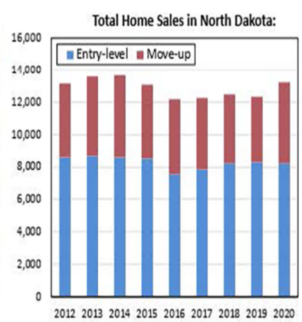
2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been very robust in North Dakota.

Median Borrower Statistics in North Dakota:

2020	All	FHA
Note Rate	2.99	3.25
Combined LTV	95	99
Credit Score	752	674
Debt-to-Income	36	44
Down payment (DP)	$15,500	$2,200
% with DP assistance	N/A	19%
% FTBs	50%	78%
MRI*	6.7%	25.6%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

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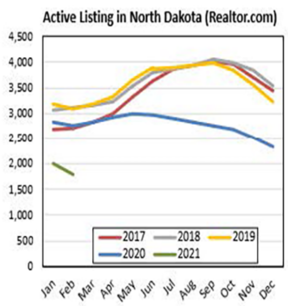
Housing Market Indicators for North Dakota

3 Supply

Strong demand and lack of new supply are depleting inventories in North Dakota. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in North Dakota	2019	2020
Entry-Level	4.1	3.1
Move-Up	7.2	5.7
Overall	4.1	3.1

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

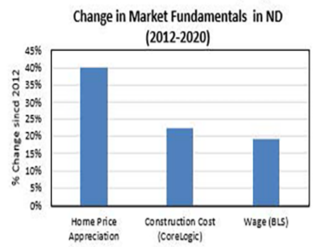
Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, North Dakota has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

Source: AEI Housing Center, www.aei.org/housing.

4 Market Fundamentals

The North Dakota housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.



5 Recap

North Dakota has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

AEI Housing Center

Ohio

AEI Housing Center

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Housing Market Indicators for Ohio

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

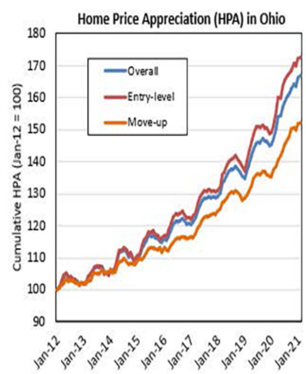
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in Ohio has totaled 67%. In the entry-level, HPA has totaled 73%, but only 52% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $14,500 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 13.4%, up from 7.4% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.



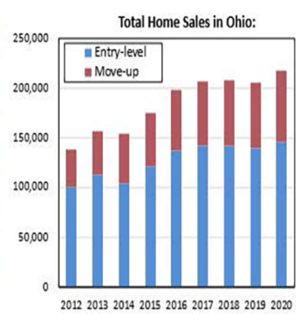
2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Ohio:

2020	All	FHA
Note Rate	3.25	3.38
Combined LTV	95	99
Credit Score	733	664
Debt-to-Income	36	42
Down payment (DP)	$10,600	$1,600
% with DP assistance	N/A	27%
% FTBs	55%	77%
MRI*	9.3%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.



Source: AEI Housing Center, www.aei.org/housing.

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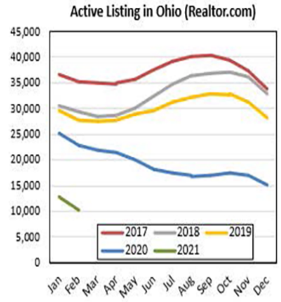
Housing Market Indicators for Ohio

3 Supply

Strong demand and lack of new supply are depleting inventories in Ohio. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Ohio (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Ohio	2019	2020
Entry-Level	1.5	1.0
Move-Up	5.6	2.9
Overall	1.9	1.2

* Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

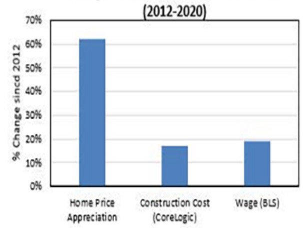
Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Ohio has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

4 Market Fundamentals

The Ohio housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in Ohio (2012-2020)



5 Recap

Ohio has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

Pennsylvania

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Pennsylvania

The Paradox of Accessible Lending:

When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

1 Home Prices and Affordability

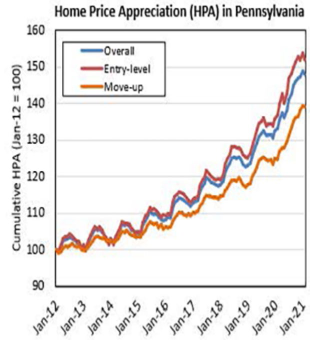
Since 2012, home price appreciation (HPA) in Pennsylvania has totaled 48%. In the entry-level, HPA has totaled 52%, but only 39% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $12,600 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 11.0%, up from 7.6% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.

Home Price Appreciation (HPA) in Pennsylvania



2 Demand

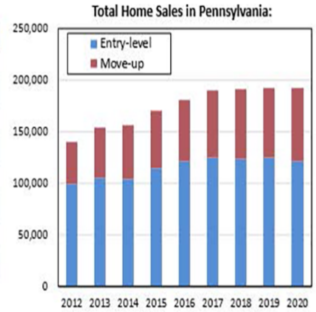
Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Pennsylvania:

2020	All	FHA
Note Rate	3.13	3.13
Combined LTV	95	99
Credit Score	744	673
Debt-to-Income	397	43
Down payment (DP)	$15,000	$2,000
% with DP assistance	N/A	32%
% FTBs	57%	79%
MRI*	7.9%	25.6%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.

Total Home Sales in Pennsylvania:



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

Additional data and methodology available upon request.
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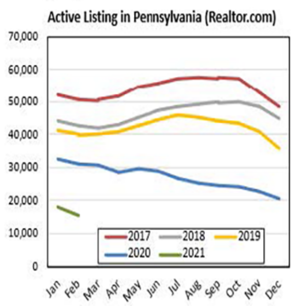
Housing Market Indicators for Pennsylvania

3 Supply

Strong demand and lack of new supply are depleting inventories in Pennsylvania. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Pennsylvania	2019	2020
Entry-Level	2.4	1.6
Move-Up	6.7	4.7
Overall	2.8	2.0

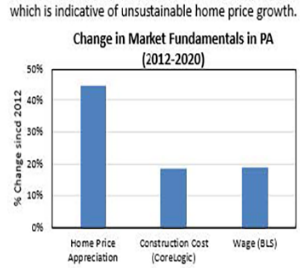
*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Pennsylvania has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

4 Market Fundamentals

The Pennsylvania housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.



5 Recap

Pennsylvania has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

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Housing Market Indicators for Rhode Island

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

1 Home Prices and Affordability

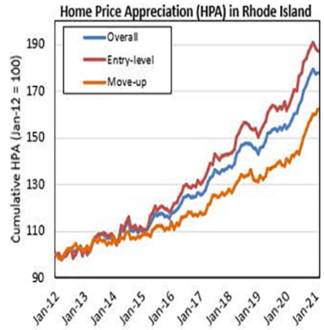
Since 2012, home price appreciation (HPA) in Rhode Island has totaled 78%. In the entry-level, HPA has totaled 87%, but only 62% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $33,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 14.5%, up from 6.8% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.

Home Price Appreciation (HPA) in Rhode Island



2 Demand

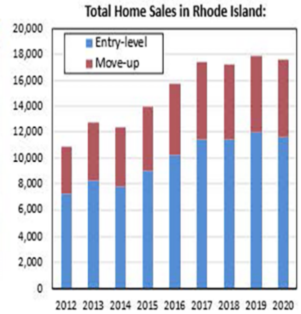
Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Rhode Island:

2020	All	FHA
Note Rate	3.19	3.25
Combined LTV	95	99
Credit Score	738	680
Debt-to-Income	40	47
Down payment (DP)	$16,500	$3,000
% with DP assistance	N/A	25%
% FTBs	59%	83%
MRI*	9.7%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.

Total Home Sales in Rhode Island:



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

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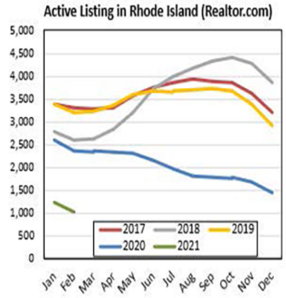
Housing Market Indicators for Rhode Island

3 Supply

Strong demand and lack of new supply are depleting inventories in Rhode Island. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Rhode Island (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Rhode Island	2019	2020
Entry-Level	1.7	1.1
Move-Up	6.4	4.0
Overall	2.5	1.6

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

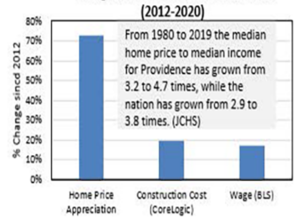
Since 2012, Rhode Island has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

Source: AEI Housing Center, www.aei.org/housing.

4 Market Fundamentals

The Rhode Island housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in RI (2012-2020)



5 Recap

Rhode Island has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

AEI Housing Center

South Carolina

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for South Carolina

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

1 Home Prices and Affordability

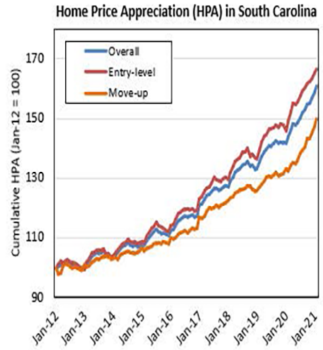
Since 2012, home price appreciation (HPA) in South Carolina has totaled 61%. In the entry-level, HPA has totaled 66%, but only 50% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $16,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 12.0%, up from 6.0% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.

Home Price Appreciation (HPA) in South Carolina



2 Demand

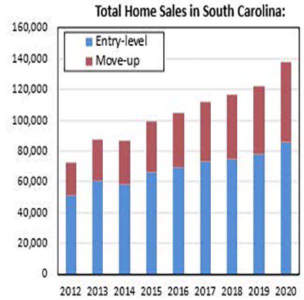
Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in South Carolina:

2020	All	FHA
Note Rate	3.13	3.25
Combined LTV	95	99
Credit Score	739	663
Debt-to-Income	38	44
Down payment (DP)	$14,400	$2,200
% with DP assistance	N/A	26%
% FTBs	44%	69%
MRI*	8.4%	26.1%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.

Total Home Sales in South Carolina:



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

Additional data and methodology available upon request.
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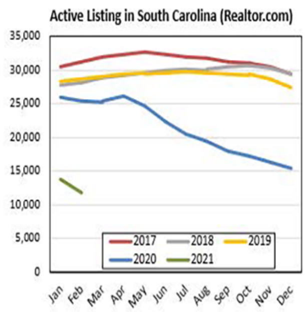
Housing Market Indicators for South Carolina

3 Supply

Strong demand and lack of new supply are depleting inventories in South Carolina. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in South Carolina	2019	2020
Entry-Level	3.0	2.2
Move-Up	11.1	6.4
Overall	3.6	2.5

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

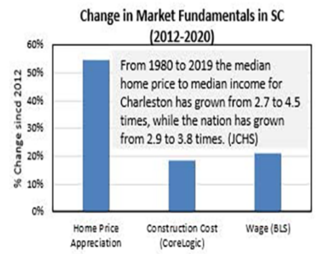
Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, South Carolina has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

Source: AEI Housing Center, www.aei.org/housing.

4 Market Fundamentals

The South Carolina housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.



5 Recap

South Carolina has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

AEI Housing Center

South Dakota

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for South Dakota

The Paradox of Accessible Lending:

When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

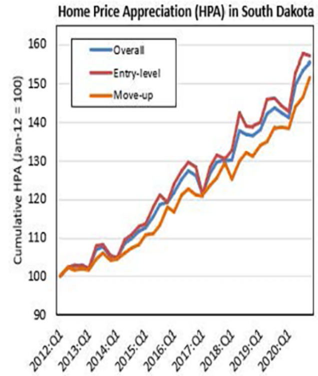
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in South Dakota has totaled 55%. In the entry-level, HPA has totaled 57% as well as 52% in the move-up segment.

Home price appreciation has accelerated over the last year. HPA in 2020:Q4 was 9.0%, up from 4.6% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.

Home Price Appreciation (HPA) in South Dakota



2 Demand

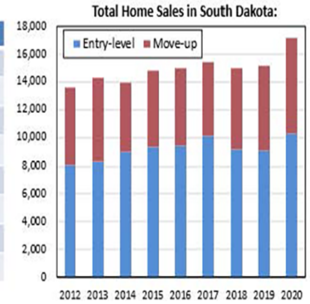
Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in South Dakota:

2020	All	FHA
Note Rate	2.88	3.00
Combined LTV	95	102
Credit Score	747	679
Debt-to-Income	37	45
Down payment (DP)	$10,700	$2,000
% with DP assistance	N/A	18%
% FTBs	50%	76%
MRI*	8.7%	25.6%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.

Total Home Sales in South Dakota:



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

Additional data and methodology available upon request.
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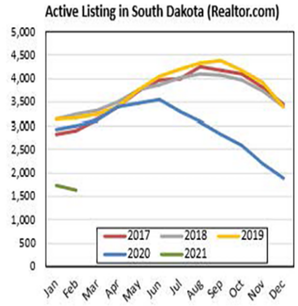
Tobias Peter - tobias.peter@aei.org

Housing Market Indicators for South Dakota

3 Supply

Strong demand and lack of new supply are depleting inventories in South Dakota. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in South Dakota (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in South Dakota	2019	2020
Entry-Level	2.9	2.2
Move-Up	6.0	4.9
Overall	3.5	2.6

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

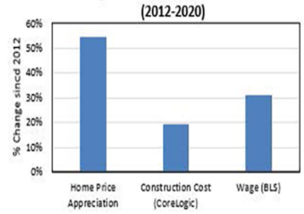
Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, South Dakota has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

4 Market Fundamentals

The South Dakota housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in SD (2012-2020)



5 Recap

South Dakota has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

Tennessee

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Tennessee

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

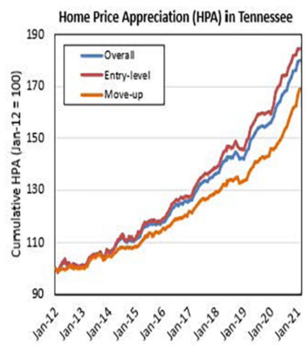
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in Tennessee has totaled 80%. In the entry-level, HPA has totaled 84%, but only 69% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $12,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 13.7%, up from 9.2% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.



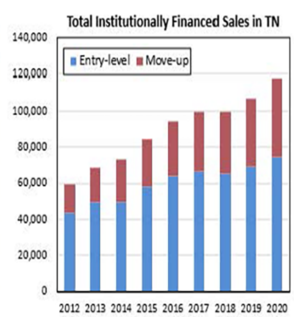
2 Demand

Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Tennessee:

2020	All	FHA
Note Rate	3.13	3.25
Combined LTV	95	99
Credit Score	741	673
Debt-to-Income	37	44
Down payment (DP)	$15,500	$2,500
% with DP assistance	N/A	24%
% FTBs	45%	67%
MRI*	8.4%	25.6%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

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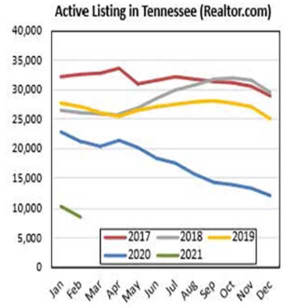
Housing Market Indicators for Tennessee

3 Supply

Strong demand and lack of new supply are depleting inventories in Tennessee. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Tennessee (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Tennessee	2019	2020
Entry-Level	1.9	1.2
Move-Up	7.8	4.6
Overall	2.5	1.5

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

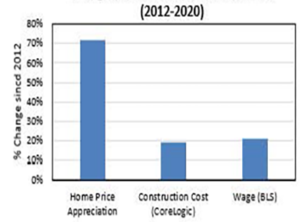
Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Tennessee has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

4 Market Fundamentals

The Tennessee housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in TN (2012-2020)



5 Recap

Tennessee has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

Virginia

AEI Housing Center

Additional data and methodology available upon request.
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Housing Market Indicators for Virginia

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

1 Home Prices and Affordability

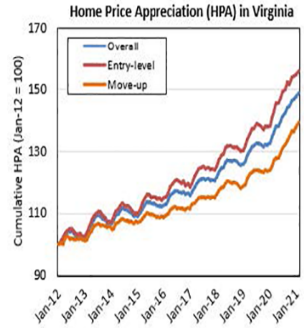
Since 2012, home price appreciation (HPA) in Virginia has totaled 49%. In the entry-level, HPA has totaled 56%, but only 39% in the move-up segment.

Had the entry-level segment experienced the same HPA as the move-up segment, then the median entry-level buyer today would be paying $27,000 less for their home.

Home price appreciation has accelerated over the last year. HPA in February 2021 was 10.4%, up from 6.2% a year ago and is expected to accelerate further.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.

Home Price Appreciation (HPA) in Virginia



2 Demand

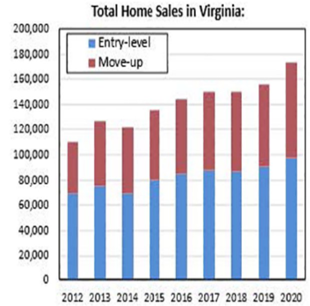
Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2012.

Median Borrower Statistics in Virginia:

2020	All	FHA
Note Rate	3.13	3.13
Combined LTV	95	99
Credit Score	748	672
Debt-to-Income	38	43
Down payment (DP)	$15,000	$2,600
% with DP assistance	N/A	31%
% FTBs	53%	78%
MRI*	7.8%	25.6%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.

Total Home Sales in Virginia:



Source: AEI Housing Center, www.aei.org/housing.

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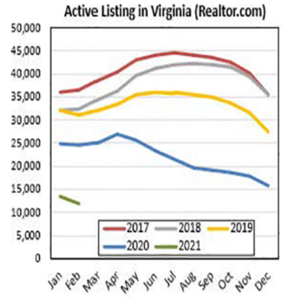
Housing Market Indicators for Virginia

3 Supply

Strong demand and lack of new supply are depleting inventories in Virginia. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Virginia (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Virginia	2019	2020
Entry-Level	2.5	1.5
Move-Up	6.7	4.2
Overall	3.0	1.8

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Virginia has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

Source: AEI Housing Center, www.aei.org/housing.

4 Market Fundamentals

The Virginia housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in Virginia (2012-2020)

5 Recap

Virginia has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

AEI Housing Center

Wyoming

AEI Housing Center

Additional data and methodology available upon request.
Edward Pinto - pintoedward1@gmail.com
Tobias Peter - tobias.peter@aei.org

Housing Market Indicators for Wyoming

The Paradox of Accessible Lending:
When supply is constrained, credit easing and extremely low interest rates are capitalized into higher home prices, making entry-level homes less affordable.

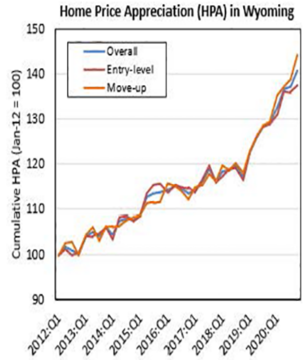
1 Home Prices and Affordability

Since 2012, home price appreciation (HPA) in Wyoming has totaled 41%. In the entry-level, HPA has totaled 37%, but 44% in the move-up segment.

Home price appreciation has noticeably ticked up starting in 2019 and remains very strong. HPA in 2020:Q4 was 9.0%, slightly down from 10.1% a year ago.

Due to faster HPA, home buyers, especially at the entry-level, have to spend more.

Home Price Appreciation (HPA) in Wyoming



2 Demand

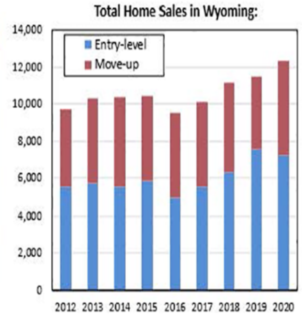
Due to the Fed's low mortgage rates and a wide credit box, home sales have been growing strongly since 2016.

Median Borrower Statistics in Wyoming:

2020	All	FHA
Note Rate	3.00	3.13
Combined LTV	95	99
Credit Score	742	672
Debt-to-Income	37	42
Down payment (DP)	$12,800	$2,500
% with DP assistance	N/A	19%
% FTBs	45%	68%
MRI*	8.7%	22.7%

* Share of borrowers that would be expected to default under a severe stress event like the last financial crisis.

Total Home Sales in Wyoming:



Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

AEI Housing Center

Additional data and methodology available upon request.
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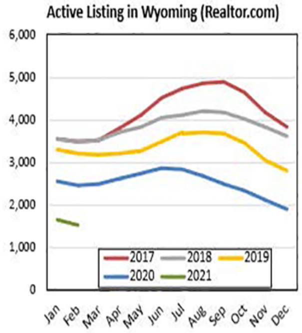
Tobias Peter - tobias.peter@aei.org

Housing Market Indicators for Wyoming

3 Supply

Strong demand and lack of new supply are depleting inventories in Wyoming. This occurrence has been exacerbated by Work from Home flexibilities. In 2021, inventory levels were far below prior years' levels.

Active Listing in Wyoming (Realtor.com)



Months' supply is at record lows. It measures how many months it would take for current inventories to be depleted at the current sale's pace.

Months' Supply* in Wyoming	2019	2020
Entry-Level	3.2	2.4
Move-Up	15.1	9.9
Overall	3.9	2.8

*Data are for existing homes. For the entire market, 6 months is generally considered the equilibrium point.

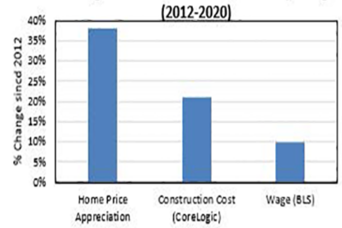
Land use restrictions and zoning laws are driving up land prices and construction costs, which are holding back new construction activity in many jurisdictions.

Since 2012, Wyoming has experienced inadequate levels of new construction to keep up with job growth. This has resulted in rapid home price appreciation.

4 Market Fundamentals

The Wyoming housing market has been far from equilibrium for quite some time. A lack of supply combined with the Fed's low rates and a wide credit box have driven up home prices far faster than market fundamentals (such as incomes or construction costs), which is indicative of unsustainable home price growth.

Change in Market Fundamentals in Wyoming (2012-2020)



5 Recap

Wyoming has a broken housing ladder. This is the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

Low-income homebuyers have been subjected to the inflationary effects of dangerous leverage and extremely low interest rates combined with unduly restrictive land use regulations.

The land use regulatory structure that is widespread in the United States is a legacy of the federal government's racially based zoning and land use regime that was conceived and implemented 100 years ago. This structure continues in force today in thousands of state and local land use codes.

Work from Home flexibilities are creating demand shifts and homebuyers are taking advantage of wide price differences across the United States- differences that as largely the result of restrictive land use regulations.

Source: AEI Housing Center, www.aei.org/housing.

AEI Housing Center

Appendix B:

High risk loans harm low-income buyers by worsening affordability and increasing foreclosure risk. This is not what responsible access to credit ought to look like. In the past, such policies have created illusory wealth for recent buyers as demonstrated above. The same thing is happening again during the current housing boom. When land prices eventually deflate again, those hurt will mostly be low-income and minority households.

In the main text we highlighted the relationship between change in land share, recent stressed and historical mortgage default rates, and borrower income or minority share for the Phoenix metros. This section highlights other major metros. The trends are very similar in each one of the metros, with low-income and minority borrowers disproportionally harmed by rising entry-level home prices.

There are two charts for each metro: *The **first one examines** the relationship between change in land share, recent stressed and historical mortgage default rates, and **borrower income.** The **second one examines** the same relationship but instead of borrower income, focuses on **borrower minority share.***

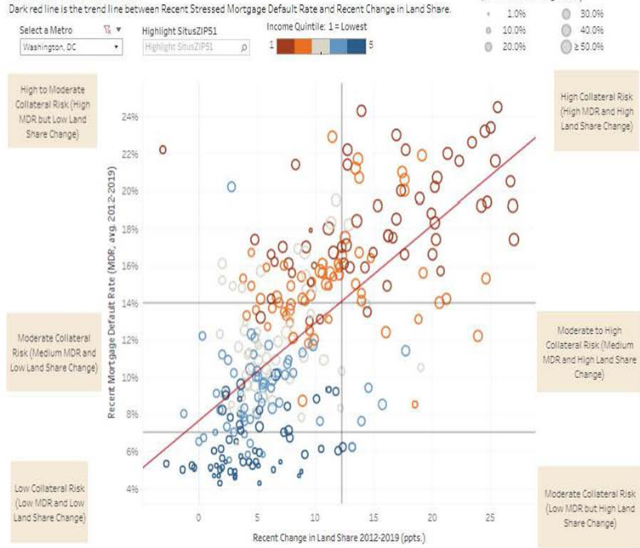
Each circle represents one ZIP code. The x-axis displays the percentage point increase in a ZIP codes land share change between 2012 and 2019. The y-axis displays a ZIP codes measure of mortgage risk over the same period as measured by the MDR. The size of the circle indicates a ZIP codes historical MDR; the larger the circle is, the more mortgages that were originated in 2006 and 2007 defaulted over the ensuing years. The coloring of the dot indicates into which income quintile the borrowers in that ZIP codes fall.

Multiple strong positive relationships emerge. The circles tend to slope upward from lower left to upper right and, as they do, they become larger in size and more orange. The interpretation is that lower income/minority buyers tend to purchase in ZIP codes that have experienced the largest land share increase and the highest levels of mortgage risk. Coincidentally, these are the same ZIP codes that were disproportionally affected by foreclosures when the last housing cycle turned.

Washington, DC

Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Borrower Income

Data are for the largest 50 metros (by public record home sales 2012-2019).
Each dot represents one ZIP Code.
Dark red line is the trend line between Recent Stressed Mortgage Default Rate and Recent Change in Land Share.



* Data with collateral risk ratings are for 294 out of 677 ZIP Codes in the Washington, DC metro representing around 99% of sales in 2019.
The data on HPA (from 2012-2019) are for 294 ZIP Codes representing around 99% of sales.

Source: FHFA and AEI Housing Center.

Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Minority Share

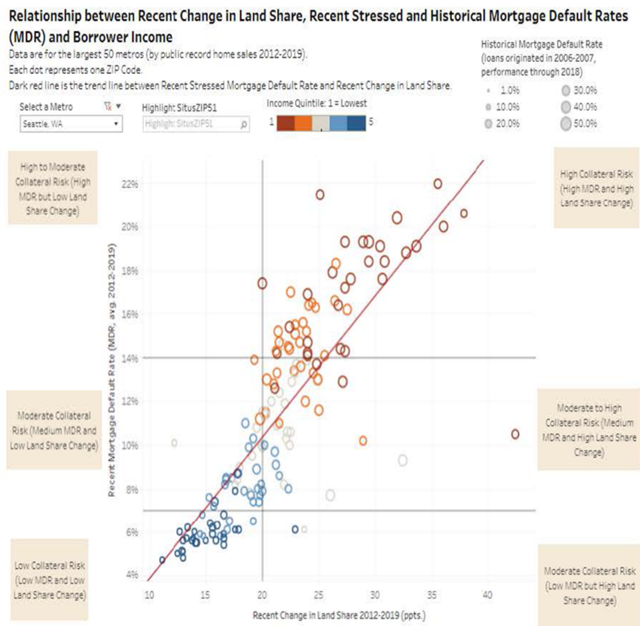
Data are for the largest 50 metros (by public record home sales 2012-2019).
Each dot represents one ZIP Code.
Dark red line is the trend line between Recent Stressed Mortgage Default Rate and Recent Change in Land Share.

* Data with collateral risk ratings are for 294 out of 677 ZIP Codes in the Washington, DC metro representing around 99% of sales in 2019. The data on HPA (from 2012-2019) are for 294 ZIP Codes representing around 99% of sales.

** Minority is defined as Black or Hispanic.

Source: FHFA and AEI Housing Center.

Seattle, WA

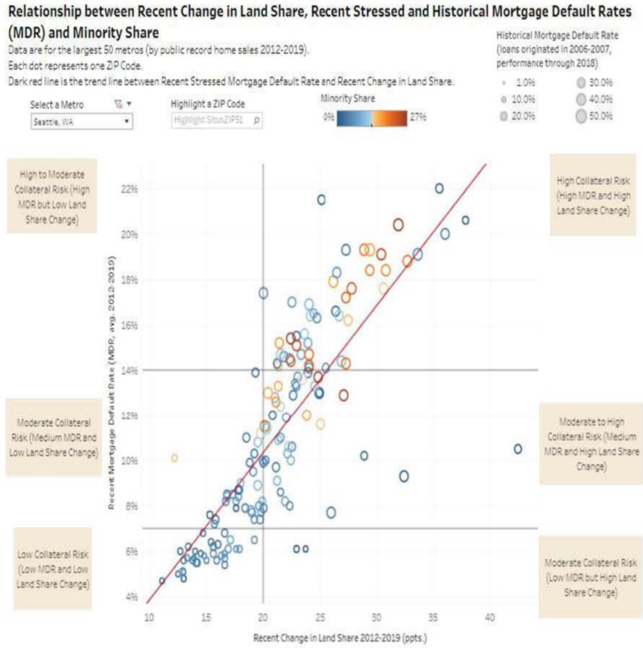


* Data with collateral risk ratings are for 153 out of 218 ZIP Codes in the Seattle, WA metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 153 ZIP Codes representing around 100% of sales.

Source: FHFA and AEI Housing Center.

Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Minority Share

Data are for the largest 50 metros (by public record home sales 2012-2019).
Each dot represents one ZIP Code.
Dark red line is the trend line between Recent Stressed Mortgage Default Rate and Recent Change in Land Share.



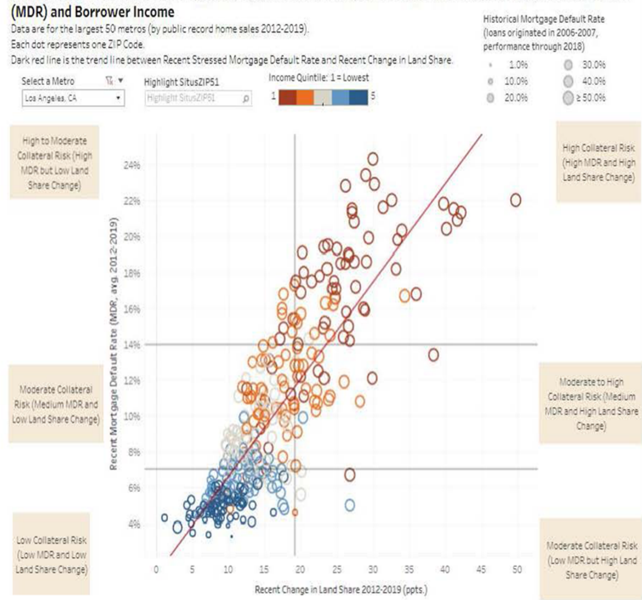
* Data with collateral risk ratings are for 153 out of 218 ZIP Codes in the Seattle, WA metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 153 ZIP Codes representing around 100% of sales.

** Minority is defined as Black or Hispanic.

Source: FHFA and AEI Housing Center.

Los Angeles, CA

Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Borrower Income



* Data with collateral risk ratings are for 360 out of 605 ZIP Codes in the Los Angeles, CA metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 360 ZIP Codes representing around 100% of sales.

Source: FHFA and AEI Housing Center.

Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Minority Share

Data are for the largest 50 metros (by public record home sales 2012-2019).
Each dot represents one ZIP Code.
Dark red line is the trend line between Recent Stressed Mortgage Default Rate and Recent Change in Land Share.

* Data with collateral risk ratings are for 360 out of 605 ZIP Codes in the Los Angeles, CA metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 360 ZIP Codes representing around 100% of sales.

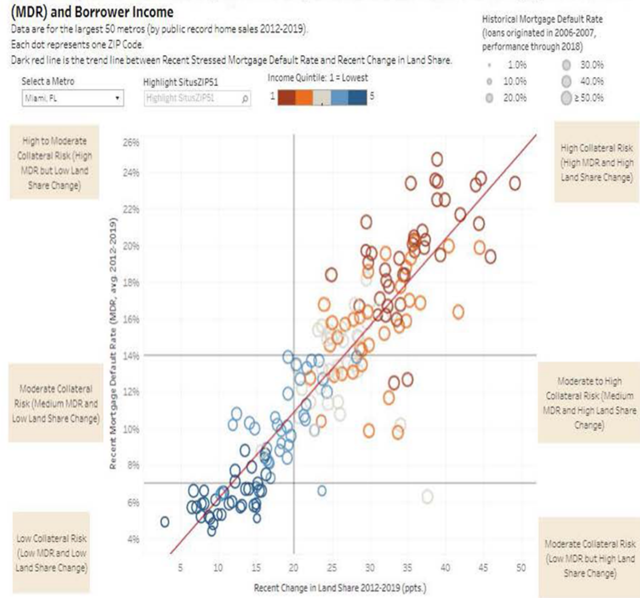
** Minority is defined as Black or Hispanic.

Source: FHFA and AEI Housing Center.

Miami

Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Borrower Income

Data are for the largest 50 metros (by public record home sales 2012-2019).
Each dot represents one ZIP Code.
Dark red line is the trend line between Recent Stressed Mortgage Default Rate and Recent Change in Land Share.

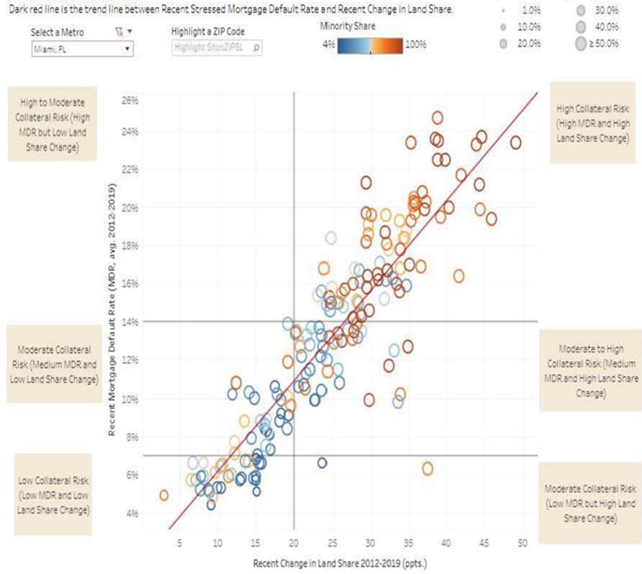


* Data with collateral risk ratings are for 181 out of 279 ZIP Codes in the Miami, FL metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 181 ZIP Codes representing around 100% of sales.

Source: FHFA and AEI Housing Center.

Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Minority Share

Data are for the largest 50 metros (by public record home sales 2012-2019).
Each dot represents one ZIP Code.
Dark red line is the trend line between Recent Stressed Mortgage Default Rate and Recent Change in Land Share.

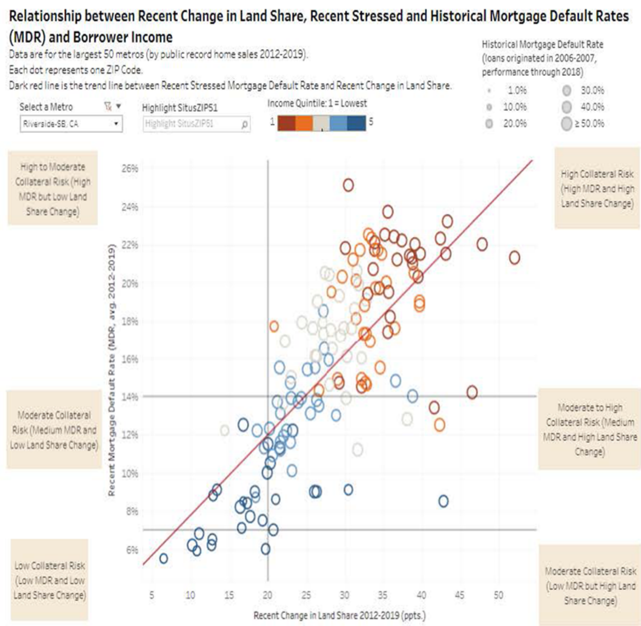


* Data with collateral risk ratings are for 181 out of 279 ZIP Codes in the Miami, FL metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 181 ZIP Codes representing around 100% of sales.

** Minority is defined as Black or Hispanic.

Source: FHFA and AEI Housing Center.

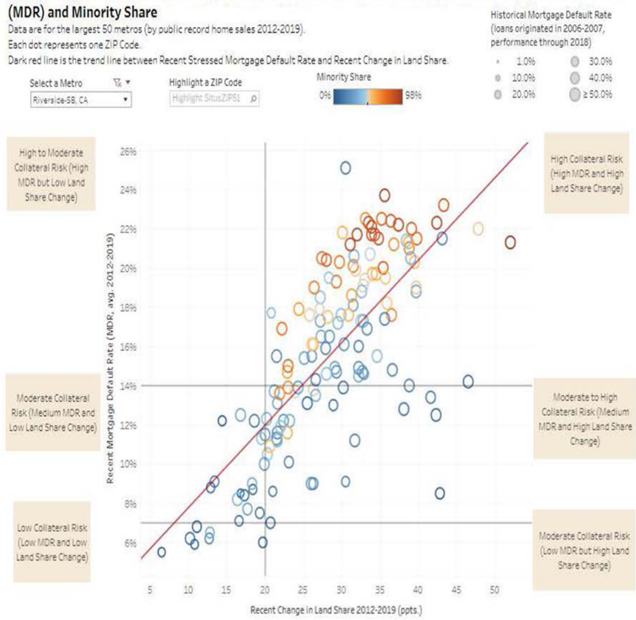
Riverside-San Bernardino



* Data with collateral risk ratings are for 144 out of 213 ZIP Codes in the Riverside-SB, CA metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 144 ZIP Codes representing around 100% of sales.

Source: FHFA and AEI Housing Center.

Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Minority Share

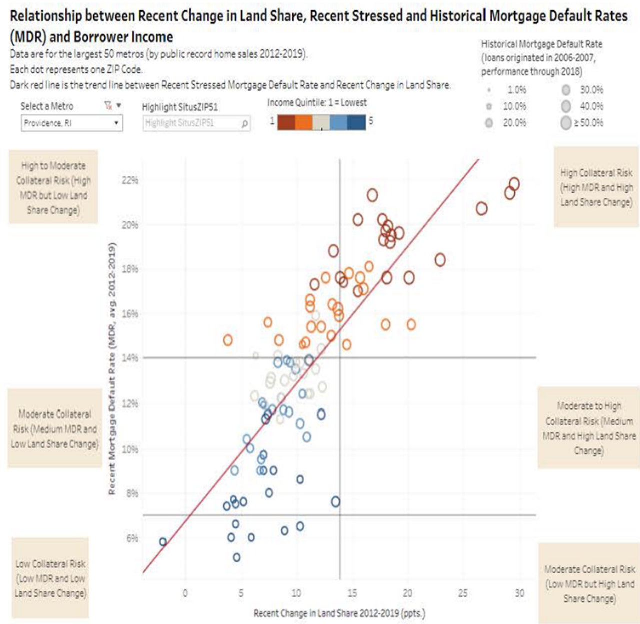


* Data with collateral risk ratings are for 144 out of 213 ZIP Codes in the Riverside-SB, CA metro representing around 100% of sales in 2019. The data on HPA (from 2012-2019) are for 144 ZIP Codes representing around 100% of sales.

** Minority is defined as Black or Hispanic.

Source: FHFA and AEI Housing Center.

Providence, RI

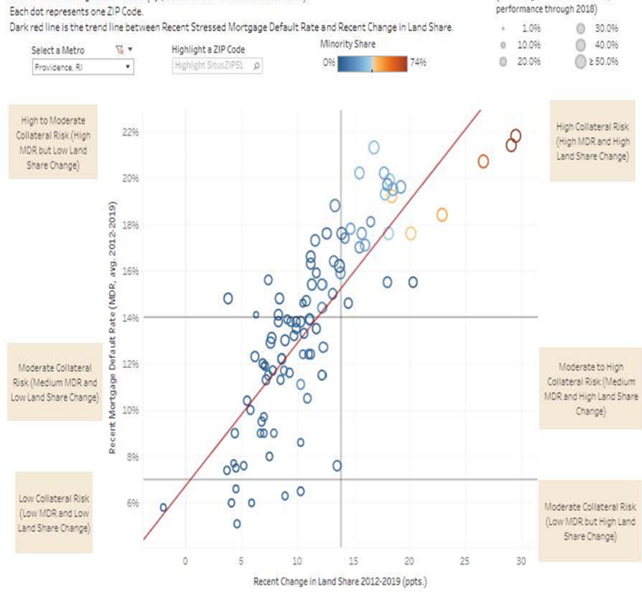


* Data with collateral risk ratings are for 100 out of 132 ZIP Codes in the Providence, RI metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 100 ZIP Codes representing around 100% of sales.

Source: FHFA and AEI Housing Center.

Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Minority Share

Data are for the largest 50 metros (by public record home sales 2012-2019).
Each dot represents one ZIP Code.
Dark red line is the trend line between Recent Stressed Mortgage Default Rate and Recent Change in Land Share.

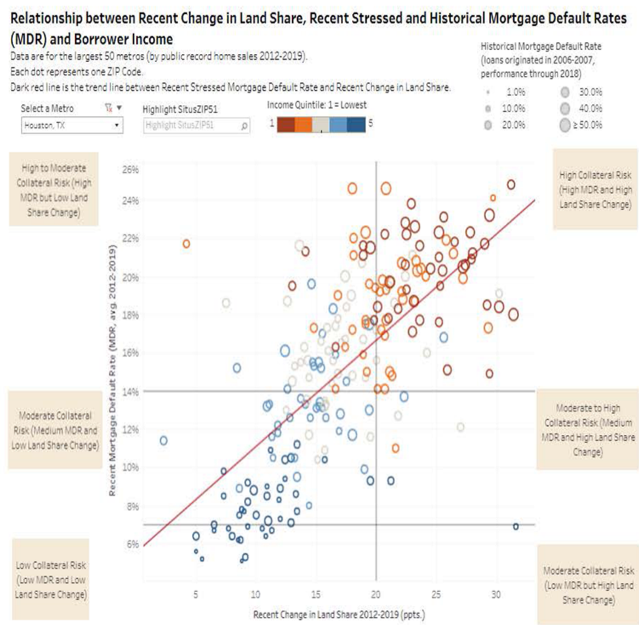


* Data with collateral risk ratings are for 100 out of 132 ZIP Codes in the Providence, RI metro representing around 100% of sales in 2019. The data on HPA (from 2012-2019) are for 100 ZIP Codes representing around 100% of sales.

** Minority is defined as Black or Hispanic.

Source: FHFA and AEI Housing Center.

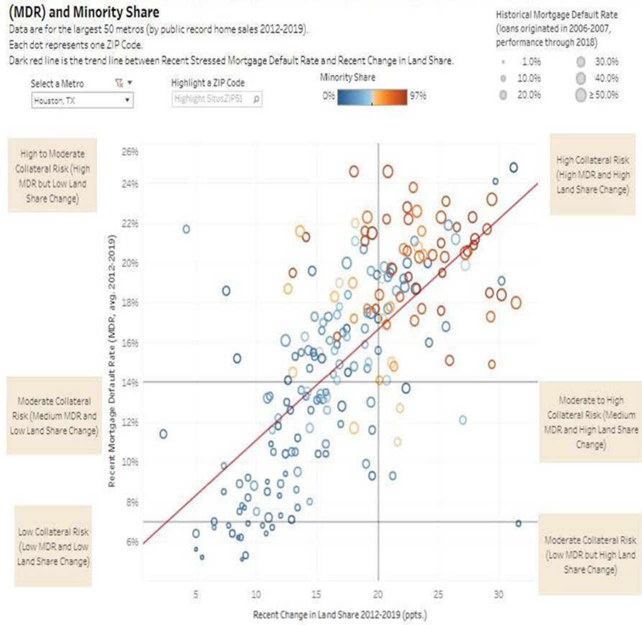
Houston



* Data with collateral risk ratings are for 212 out of 343 ZIP Codes in the Houston, TX metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 212 ZIP Codes representing around 100% of sales.

Source: FHFA and AEI Housing Center.

Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Minority Share

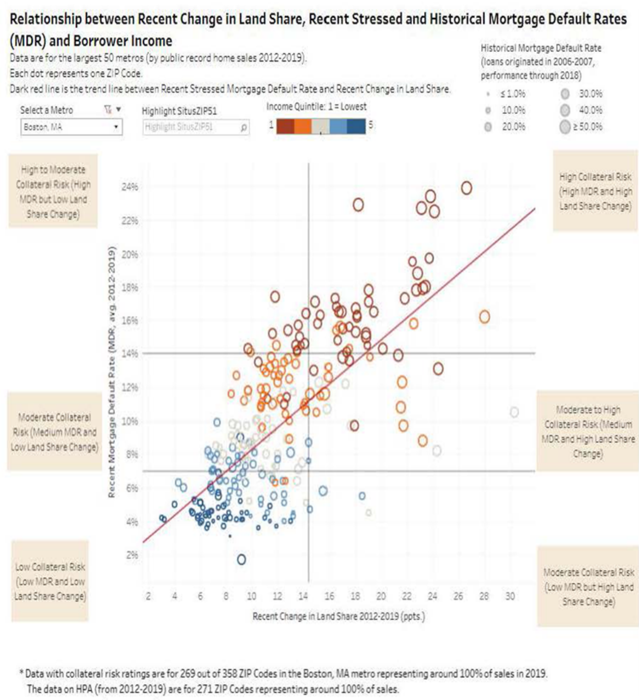


* Data with collateral risk ratings are for 212 out of 343 ZIP Codes in the Houston, TX metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 212 ZIP Codes representing around 100% of sales.

** Minority is defined as Black or Hispanic.

Source: FHFA and AEI Housing Center.

Boston



Source: FHFA and AEI Housing Center.

Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Minority Share

Data are for the largest 50 metros (by public record home sales 2012-2019).
Each dot represents one ZIP Code.
Dark red line is the trend line between Recent Stressed Mortgage Default Rate and Recent Change in Land Share.

Historical Mortgage Default Rate (loans originated in 2006-2007, performance through 2018)
≤ 1.0% 10.0% 20.0% 30.0% 40.0% ≥ 50.0%

* Data with collateral risk ratings are for 269 out of 358 ZIP Codes in the Boston, MA metro representing around 100% of sales in 2019. The data on HPA (from 2012-2019) are for 271 ZIP Codes representing around 100% of sales.

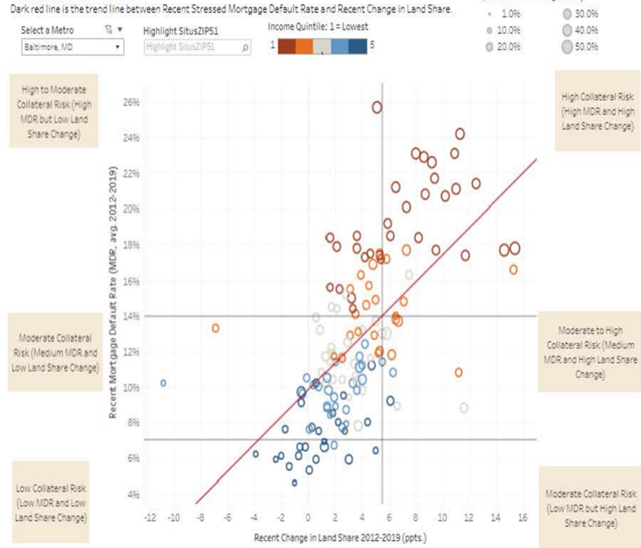
** Minority is defined as Black or Hispanic.

Source: FHFA and AEI Housing Center.

Baltimore

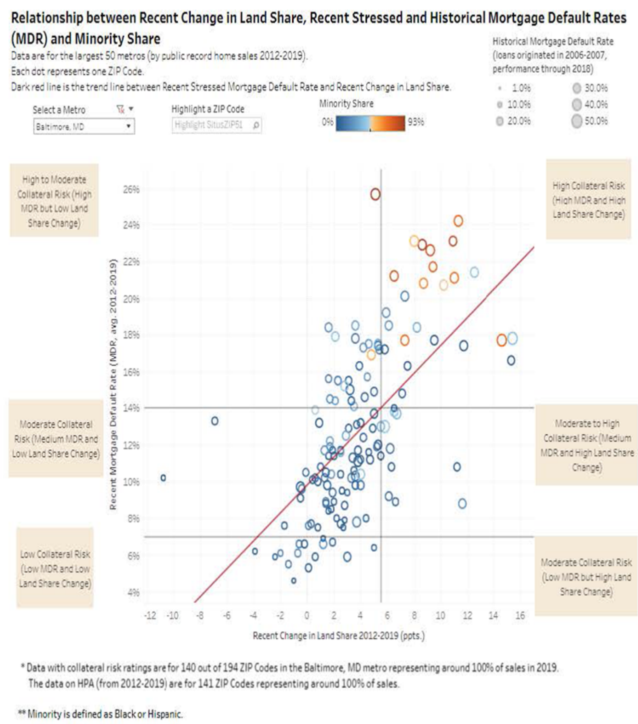
Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Borrower Income

Data are for the largest 50 metros (by public record home sales 2012-2019).
Each dot represents one ZIP Code.
Dark red line is the trend line between Recent Stressed Mortgage Default Rate and Recent Change in Land Share.



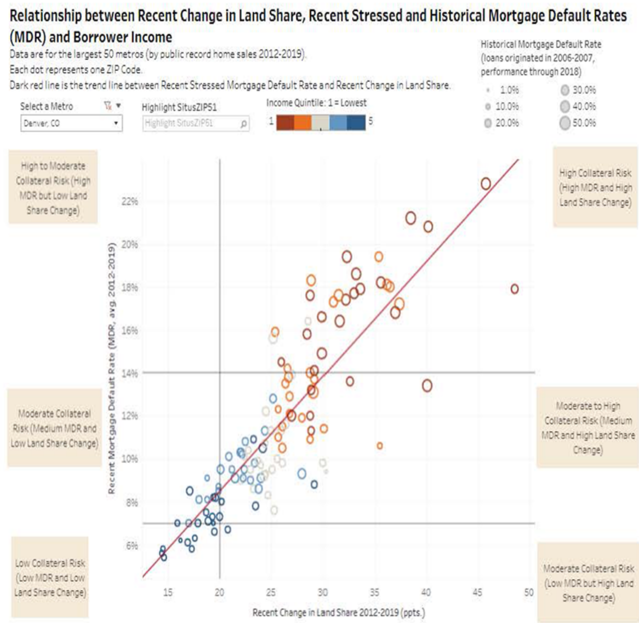
* Data with collateral risk ratings are for 140 out of 194 ZIP Codes in the Baltimore, MD metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 141 ZIP Codes representing around 100% of sales.

Source: FHFA and AEI Housing Center.



Source: FHFA and AEI Housing Center.

Denver

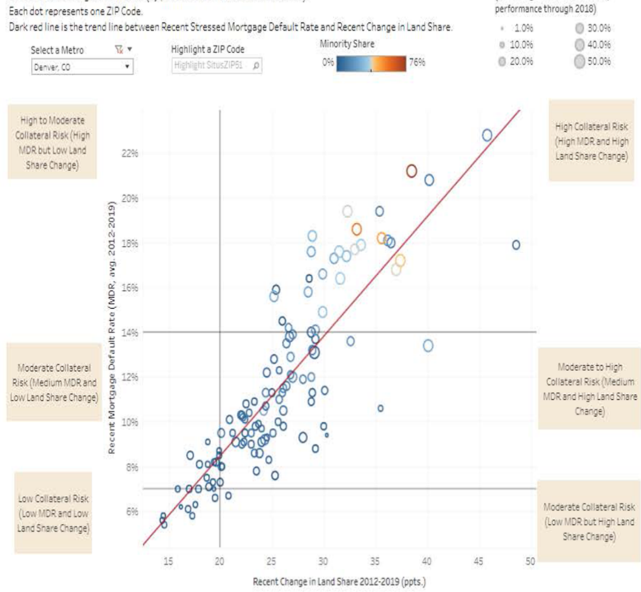


* Data with collateral risk ratings are for 120 out of 178 ZIP Codes in the Denver, CO metro representing around 100% of sales in 2019.
The data on HPA (from 2012-2019) are for 120 ZIP Codes representing around 100% of sales.

Source: FHFA and AEI Housing Center.

Relationship between Recent Change in Land Share, Recent Stressed and Historical Mortgage Default Rates (MDR) and Minority Share

Data are for the largest 50 metros (by public record home sales 2012-2019).
Each dot represents one ZIP Code.
Dark red line is the trend line between Recent Stressed Mortgage Default Rate and Recent Change in Land Share.



* Data with collateral risk ratings are for 120 out of 178 ZIP Codes in the Denver, CO metro representing around 100% of sales in 2019. The data on HPA (from 2012-2019) are for 120 ZIP Codes representing around 100% of sales.

** Minority is defined as Black or Hispanic.

Source: FHFA and AEI Housing Center.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SINEMA FROM RICHARD ROTHSTEIN

Q.1. Your testimony shares the story of Levittown, where Black veterans were systematically denied the ability to purchase affordable homes despite having benefits from the G.I. bill. What specific tactics were used to discriminate against Black veterans and deny them housing in Levittown?

A.1. Banks would not lend William Levitt the funds to buy the land and build 17,000 Levittown homes unless the loans were federally guaranteed/insured. The Federal Housing Administration and Veterans Administration would only guarantee/insure Levitt's loans if he made a commitment only to sell to Caucasians. These Federal agencies required Levitt to place a clause in the deed of every home prohibiting resale or rental to non-Caucasians. This requirement was spelled out in the FHA's *Underwriting Manual*, distributed to appraisers nationwide to guide them in their recommendations regarding whether a developer's application for Federal bank guarantees/insurance should be approved. Realtors who handled the sale of homes in Levittown and other subdivisions nationwide were required to follow this Federal policy and they refused to show homes to African-Americans who attempted to purchase one. I described all this in greater detail in my book, *The Color of Law*. If Senator Sinema would like a copy of the *Underwriting Manual*, I would be please to provide one to her.

Q.2. In spite of passage of the Fair Housing Act, which discriminatory tactics in homebuying that occurred in Levittown still persist today? Which tactics have changed, and what new forms (if applicable) do they take?

A.2. The Fair Housing Act is very weakly enforced, and many, though not all realtors still engage in extensive discriminatory behavior. *Newsday*, a Long Island newspaper whose circulation area includes Levittown, published an investigative report documenting the unlawful behavior of realtors to preserve segregation in Long Island. The citation for this investigative report is here, including videos of real estate agents who discriminated against black homebuyers (New York State does not require two-way consent for recording conversations, so *Newsday* reporters wore hidden buttonhole cameras to assemble their evidence): Ann Choi, Keith Herbert, Olivia Winslow, and Arthur Browne. 2019. "Long Island Divided". *Newsday*, November 17; *https://projects.newsday.com/long-island/real-estate-agents-investigation/*. The Federal Government (HUD) conducts "audit" studies of real estate agents' compliance with the Fair Housing Act once a decade, but the studies only make statistical reports and are not used for enforcement activities. HUD has no proactive program of enforcement and relies on complaints made (usually) to local fair housing centers. But since a consumer of real estate agency services has no way to know whether he or she has been receiving treatment that is different from that received by consumers of another race, complaint data are not an indication of the extent of ongoing discrimination.