COLORADO'S RACIAL WEALTH GAP: HOMEOWNERSHIP & CREDIT

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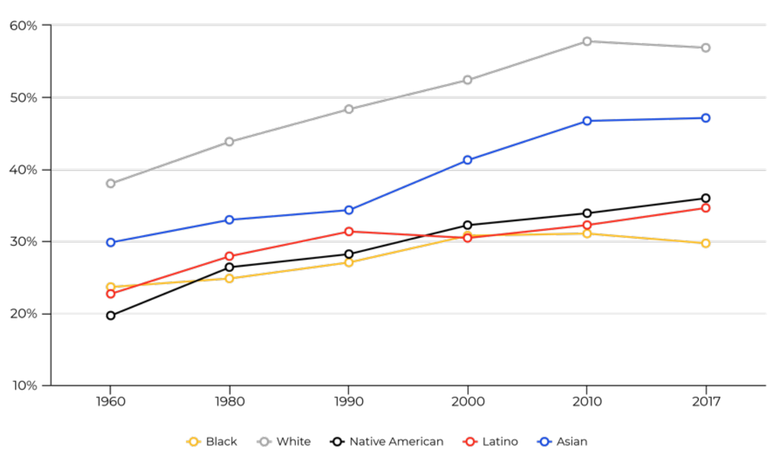
Wealth often dictates the opportunities you have, the status of future generations, and your quality of life. In short, wealth can often determine your standing in life and the privileges you possess. But beyond power and opportunity, what *is* wealth? For the purposes of this conversation, we define wealth as net worth: The assets you hold minus your debts. Assets include things like homes, cars, land, businesses, cash savings, inheritances, and investments. Your credit score can be a measure of your wealth and also serves as a form of wealth building, as it can dictate the amount and types of capital you can access.

When considering the racial wealth gap, a holistic understanding of wealth is important to developing the right solutions. This means wealth consists of a combination of assets, not just any single asset. This brief considers the impact of homeownership and credit on wealth, as well as introduces unique statistics pertaining to the state of Colorado disaggregated by race. In doing so, it illustrates the existing disparities in homeownership and credit, the causes of these disparities, and the historical impact homeownership and credit access have had on the racial wealth gap since the Great Depression and the New Deal.

Colorado's Current Racial Wealth Gap: Homeownership & Credit

Homeownership is one of the most valuable ways to generate familial intergenerational wealth, as well as generate credit. Based upon the Bell's analysis of Colorado-specific American Community Survey data[i] and controlling for a variety of factors, Colorado's black families are 62 percent less likely to own a home than the state's non-Hispanic white families. Latino families are 43 percent less likely to own a home than white families, Native American families are 38 percent less likely, and Asian families are 36 percent less likely.

COLORADO HOMEOWNERSHIP BY RACE OVER TIME



Source: Bell Analysis of American Community Survey Data 1960-2017

The graph to the left shows although homeownership rates have improved for Coloradans of all races since 1960, the gap between non-Hispanic white homeownership and homeownership for Coloradans of color has widened. In 1960, the homeownership gap between whites and blacks was 14.38 percentage points, 18.35 percentage points for Native Americans, 15.33 percentage points for Latinos, and 8.19 percentage points for Asians. By 2017 that gap grew to 27.18 percentage points for black Coloradans, 20.91 percentage points for Native Americans, 22.26 percentage points for Latinos, and 9.76 percentage points for Asians.

Furthermore, between 2010 and 2017, black homeownership shows a decline, which raises questions as to the cause. Some potential explanations for the decline in black homeownership could include the impacts of the Great Recession or gentrification in urban areas.

The Urban Institute reports the national homeownership rate for non-Hispanic white Americans was 72 percent in 2017 and the homeownership rate for black Americans was 42 percent, amounting to a gap of 30 percent. While Colorado's gap in black and non-Hispanic white homeownership is 2.82 percent lower, this can be explained by homeownership rates that are significantly lower than the national average across all races in Colorado. Among the most impactful differences is black homeownership: Only 29 percent of black Coloradans own a home as compared to 42 percent nationwide.

Unemployment and poverty are essential aspects to consider in terms of homeownership. Buying a home requires loans, which require access to credit. Research from the Consumer Financial Protection Bureau (CFPB) in 2015 shows a strong correlation between income level and both "credit invisibility" and "unscorability" — that is, a lack of a credit record altogether, or having an insufficient credit history to generate a credit score. CFPB also finds "credit invisibility" and "unscorability" are strongly correlated to race.

The Bell's analysis of Colorado contextualizes these problems. Both black Coloradans and Native Americans are more than two times likely to be impoverished than non-Hispanic white Coloradans. Non-white Latinos are just less than two times more likely.

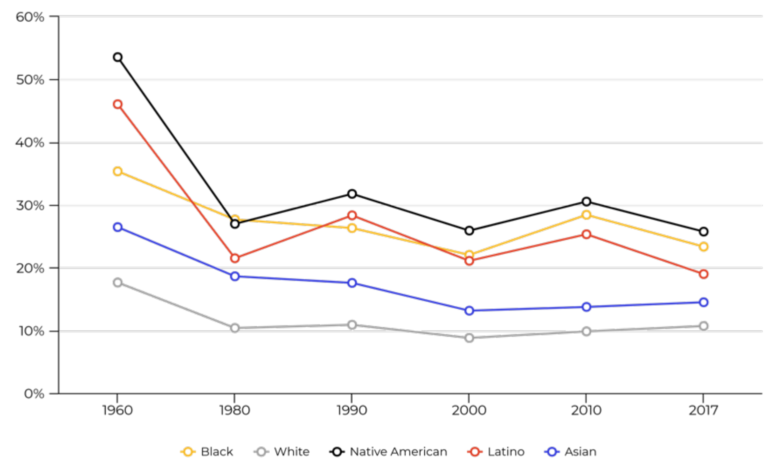
When it comes to unemployment, both black Coloradans and Native Americans are also around two times more likely to be unemployed than non-Hispanic white Coloradans, while non-white Latinos are almost one-and-a-half times more likely.

Additionally, research shows rent burden —spending 30 percent or more of your income on rent — affects all Coloradans. In 2017, more than 25 percent of Colorado renters of all races were rent burdened. When viewed in the context of the racial homeownership gap, it's very likely Coloradans of color are more impacted by the cost of renting.

For unemployed and impoverished Coloradans of color, many of whom are "credit invisible" or "unscorable," good loans and quality affordable housing are inaccessible, disproportionately exposing them to environmental hazards and encouraging their reliance upon the predatory economy.

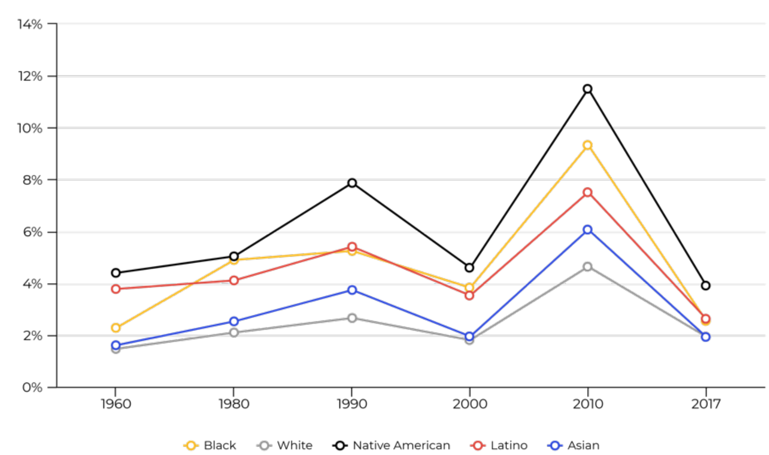
The Bell's analysis of these markers paints a somber picture. Racial gaps in homeownership are getting worse, while poverty rates for Coloradans of color continue to be significantly higher than those of non-Hispanic white Coloradans. Furthermore, unemployment continues to occur at racially disparate levels.

COLORADO POVERTY BY RACE OVER TIME



Source: Bell Analysis of American Community Survey Data 1960-2017

COLORADO UNEMPLOYMENT BY RACE OVER TIME



Source: Bell Analysis of American Community Survey Data 1960-2017

Underlying Causes of Homeownership Gaps

Current gaps in homeownership on a racial basis are precipitated from discrimination in lending, predatory lending, and the subprime crisis, as well as the compounded effect of historical discriminatory policies. Policies that have had a long-term effect on homeownership among people of color include redlining, racially restrictive covenants, and racially restrictive zoning. These legal tools, economic events, and trends have had a negative effect on homeownership for people of color and contribute to today's racial wealth gap.

Discrimination in Lending

Even with a half century of laws designed to prevent racial discrimination in both lending and home sales, racially discriminatory practices persist both nationally and in Colorado. These practices prevent many families from accessing the needed resources for homeownership.

The podcast Reveal, a project from the Center for Investigative Reporting, analyzed 31 million mortgage records from 2015 to 2016. Its findings show in certain parts of the country, people of color are more likely to be denied a regular, non-Federal Housing Administration (FHA) mortgage loan than their white counterparts, controlling for a variety of economic and social factors. Reveal subsequently interviewed several lenders who didn't dispute they deny loans to more people of color than white applicants. They did, however, cite "hidden factors" as rationale for those denials. Credit scores, which lenders aren't required by the federal government to report, are just one example of these hidden factors.

Clever Real Estate, a national real estate firm, expands on this analysis and finds approval rates for white Coloradans are 4 percent higher than among black Coloradans. Nationally, it shows 52 percent of black applicants aren't given a reason for their denial, a trend that's matched in Colorado when examining Clever's Colorado-level mortgage data.

Predatory Lending & the Subprime Crisis

Unable to obtain better financial products or pushed into bad products, too many families in Colorado look to predatory financial products.

The National Bureau of Economic Research (NBER) analyzed mortgage data from 2004 to 2007 which shows black and Hispanic homebuyers are 105 percent and 78 percent more likely, respectively, to have high-cost mortgages when buying a home. These mortgages are defined as rate-spread loans. NBER concludes differential exposure to high-risk lenders combined with differential treatment by those lenders explains almost all the racial and ethnic differences in high-cost mortgage borrowing.

This has important implications in the wake of the subprime crisis and the Great Recession. In 2013, NBER revealed predatory lending practices contributed to high mortgage default rates among subprime borrowers, raising them by about one-third. 2009 data from policy think tank The Greenlining Institute shows Latinos and blacks were disproportionately steered into the subprime lending market leading up to the housing crash. Based on information from the Federal Reserve Bank of San Francisco, Greenlining finds even among borrowers with the highest credit scores, 13.5 percent of Latino and 12.8 percent of black borrowers received high-cost loans, compared to 2.6 percent of white borrowers.

Research from the American Civil Liberties Union (ACLU) shows during the Great Recession's recovery period between 2009 and 2011, white wealth levels (excluding home equity) exhibited zero loss while the average black household lost 40 percent of non-home equity wealth. The same trend is seen in comprehensive wealth (including home equity), with typical white families' losses slowing to zero while the average black family lost an additional 13 percent of its wealth.

The Bell's analysis of Colorado homeownership rates finds a statistically significant difference in both homeownership rates by race and the percent change between 2009 and 2011. During this time, white Coloradans saw a decrease of 2.11 percent, while Coloradans of color saw decreases of 5.21 percent (Native American), 4.27 percent (Asian), 4.25 percent (black), and 0.81 percent (Latino).

In addition, there is a statistically substantial disparity in unemployment by race and percent change between 2009 and 2011. In Colorado, unemployment rates only increased by 0.5 percent for whites, much higher than the rates for Native Americans (2.1 percent increase), blacks (2.5 percent increase), and Asians (3.9 percent increase.) Latino Coloradans actually experienced a 0.3 percent decrease in unemployment, which is consistent with national data.

We also see a statistically significant difference in poverty rates by race and percent change between 2009 and 2011. In Colorado, poverty rates increased by 3.14 percent for whites, much lower than the rates for Native Americans (12.54 percent increase), blacks (11.24 percent increase), and Asians (7.32 percent increase). Colorado's Latino population only saw its poverty rate increase by 1.32 percent during this time, which can be attributed to the decrease in unemployment seen over the same time period for Latinos.

While poverty and unemployment increased and homeownership decreased for Coloradans of all races during the post-recession recovery period, people of color — with the exception of Latinos — experienced a disproportionate increase in poverty and unemployment. All people of color experienced a disproportionate decrease in homeownership compared to white Coloradans. Native Americans in Colorado experienced the largest increase in poverty and decrease in homeownership of any race, while Asians experienced the largest increase in unemployment of any race.

History of Discriminatory Policy

Redlining

The New Deal completely transformed homeownership in America. In the span of three decades, homeownership went from being a privilege for a small subset of Americans to an opportunity for the majority. Precipitated by federal policy, this homeownership boom is notable for the opportunity it provided white families, as well as how it left behind many Americans because of the color of their skin or ethnic background.

The creation of the Home Owners' Loan Corporation (HOLC) and the Federal Housing Administration (FHA) in 1933 and 1934 revolutionized home loans. Previous to the creation of federally backed home loans, loans were typically only five- to six-year "balloon loans" that accrued interest throughout the life of the loan. Families only paid the interest, not having to pay the full principal amount until the end of the loan. Most families rolled the loan into a new loan, very rarely making progress on the principal amount.

With the creation of HOLC and FHA came amortization — the process of spreading out a loan into a series of fixed payments over time. This gave families the ability to obtain loans that were limited in interest payments and allowed progress on paying the principal of the loan. HOLC was able to scale this model by "securitizing" these loans, or selling the loans on the market to raise additional capital for more loans.

To facilitate this new market, HOLC generated color-coded maps that designated neighborhoods as good or bad investments according to their racial and ethnic makeup. Neighborhoods with a high density of black people or immigrants were deemed undesirable and color coded red, and banks were forbidden by the FHA from issuing government-insured loans in those neighborhoods.[ii] Yellow-coded neighborhoods were deemed moderately desirable, predominantly white neighborhoods considered to be working class or areas with a high concentration of Italian and Irish immigrants. Desirable investments were the green-coded neighborhoods, which had a homogeneous white racial makeup with predominantly middle to upper class residents in a good location.

The practice of “redlining” neighborhoods both prevented families of color from taking part in one of America’s most subsidized and advantageous policies in our history, and also designated neighborhoods as “bad investments” for decades, further exacerbating racial wealth divides.

Racially Restrictive Zoning, Racially Restrictive Covenants, & Contract Sales

During the wake of the Great Migration (1915–1930), between 1.5 million and 2 million African Americans left the South for urban areas in the North and rural areas in the West. As documented by sociologist Kevin Fox Gotham, this led real estate developers to create national real estate organizations enshrined in the belief that racial minorities were threats to property values and neighborhood stability. The National Association of Real Estate Boards (NAREB) created new ethics rules that required realtors to enforce Jim Crow ideology. NAREB and the National Association of Home Builders (NAHB) lobbied local governments to enact various land-use policies and subdivision regulations that maintained a rigid color line in housing.

Gotham explains these same industry interests were integral in the development process of the Federal Housing Act of 1934, and later staffed the Federal Housing Administration. As a result, these industry interests sought to maintain the rigid color line they had lobbied for in the cities, and institutionalized residential segregation through policies like redlining.

Instituted to maintain a strict homogeneous separation of the races in the suburbs, racially restrictive covenants and deed restrictions were also used to legally prevent homeowners from selling to black families and other people of color. Mehrsa Baradaran writes in The Color of Money[iii] this discrimination and segregation created the white suburban middle class, built credit and wealth for white communities in the wake of the Great Depression, and established the urban ghetto. Due to the legal mechanisms at work forcing black people and other people of color into occupying segregated neighborhoods that didn’t benefit from government investment, destitution was largely the result.

Baradaran explains this segregation further exposed black people and other people of color to predatory practices, such as high-cost predatory loans and contract sales. Contract sales occurred when a speculator acquired capital from a bank lender, then used that capital to purchase undervalued segregated homes to “sell” to black homebuyers on a contract basis. This had the functional nature of a mortgage, but without any of the protections afforded by FHA-insured mortgages. Moreover, because these arrangements were contracts rather than loans, they didn’t generate credit. Therefore, the risky credit and housing markets were subsidized and insulated for white America, while it was free-market capitalism for black America.

Racist Anti-Immigration Policy & Termination & Relocation Policy

Around the same time, President Hoover championed anti-immigrant policies in the interest of improving the economic prospects of “real Americans.” This resulted in the deportation of 1.8 million Latinos during the 1930s. President Eisenhower initiated Operation Wetback, the largest mass deportation in American history, which removed roughly 1.1 million Latinos during the summer months of 1954. Together these efforts physically forced nearly 3 million Latinos — many of whom were either U.S. citizens or legally authorized workers through the Bracero Program — out of the country and economy between 1930 and 1954. These policies had a negative effect on the overall economy, and stymied millions of American Latinos in pursuing the American Dream.

Simultaneously, efforts were underway to terminate Native American tribal governments and encourage assimilation. This resulted in the relocation of nearly 1 million Native Americans from rural reservations to the segregated urban centers, where they faced low-paying jobs, discrimination, and a loss of traditional cultural supports.

Comprehensive Solutions

The history of racial discriminatory policies shows today's racial wealth gap didn't originate naturally — it was purposeful and continues to this day. Solutions must be as equally purposeful and targeted. Policy solutions must focus on the root causes of the racial wealth gap.

To be sure, policies that aim to increase homeownership and access to credit will go a long way toward equalizing those respective markets. However, we must avoid the trap of assuming increased homeownership and access to credit alone will have a tangible impact on the racial wealth gap. Economists William Darity Jr. and Darrick Hamilton argue the racial homeownership gap isn't the sole driver of the racial wealth gap, but rather one aspect of it.

Owning a home that depreciates from historic racial discrimination won't aid efforts to eliminate the racial wealth gap. When it comes to non-homeowning households, Darity and Hamilton find black households have a mere $120 in net worth, but white households have 31 times more wealth than that. Additionally, Darity and Hamilton find among households that own a home, white households have nearly $140,000 more in net worth than black households.

Wealth begets more wealth, and higher levels of wealth enable greater access to more favorable terms for credit. Wealth provides individuals and families with financial agency and choice, and it provides economic security to take risks and shields against the risk of financial loss. This means families with more wealth have the security to take risks that have the potential to increase their wealth like making investments, starting a business, or purchasing large assets, just to name a few examples. Meanwhile, wealthy families and individuals don't have to worry about making ends meet to put food on the table, take a sick child to the doctor, or pay off debt.

As shown through the historical analysis, the years of wealth building that have been afforded to white families, but not families of color, has caused a persistent gap. Potential solutions must target wealth building and equalize the starting net worth of families of color. A few ideas have been discussed in national conversations and are explored in a Colorado context here.

Baby Bonds

(Since it's imperative we consider methods that build and establish wealth rather than simply encourage the acquisition of one type of asset, we will primarily explore the concept of Baby Bonds in this section. Baby Bonds have been shown to have great promise in directly addressing wealth building and accumulation, thereby directly affecting the racial wealth gap.)

A central piece of Senator Cory Booker's presidential campaign platform, Baby Bonds are a federally funded savings account that would be established for every child at birth. Seeded with $1,000, the savings could grow by up to $2,000 every subsequent year depending on the family's income. Sen. Booker's campaign estimates by the age of 18, account holders with low incomes could have up to $50,000 in seed capital that could be spent on wealth-building activities, such as going to college or a down payment on a home. Booker proposes this program could be paid for by restoring 2009-era estate tax rules and closing loopholes that allow wealthy households to avoid paying taxes on investments held at death.

Darity and Hamilton were among the first to explore the concept of Baby Bonds in 2010. Darity and Hamilton derive their idea for Baby Bonds from the United Kingdom, where every newborn since 2005 receives a trust ranging from £250 to £500 ($323 to $650) according to family resources, with additional government deposits of the same amount at ages seven and 11. Darity and Hamilton scale this up and propose a program of up to $50,000 accessible at age 18, or $60,000 for those with the lowest 25 percent of household incomes. The funds would be held in federally managed investment accounts with guarantees of 1.5 percent to 2 percent annual growth. Based on their estimate, the budget would be roughly 10 percent of the non-war spending budget of the Department of Defense, or around $60 billion per year. This estimate doesn't incorporate projected savings resulting from a reduction in other federal transfer programs, such as food assistance, cash benefits, student financial aid, or Medicaid due to establishing better-resourced young adults.

In Colorado, a scaled-back program comparable to the size of the UK's program, paired with a progressive tax structure has the potential to produce tangible results that would offset state spending on other social programs. There is already precedent for a program similar to this in Colorado, with the 2019 creation of universal 529 college savings accounts for all newborns.

Expanded Refundable Tax Credit

Senator Kamala Harris recently proposed the LIFT the Middle Class Act, which would introduce a new refundable tax credit that would match the first $3,000 earned for people who are not married, $6,000 if married. Additionally, this credit could be delivered on a monthly basis, and would be in addition to any other tax credits if implemented at the national level. With this tax credit, half of U.S. households would get a tax cut and nearly all the benefits would go to those making $87,000 or less. Earlier this year, the Bell found this proposal would overwhelmingly benefit Coloradans with both middle and low incomes.

The most important aspect of this tax credit is that it's refundable and it can be delivered on a monthly basis. This means it would provide an extra $250 to $500 of monthly income for working Americans, depending on their marriage status. This would be a much-needed investment in the working class and could help millions of families nationwide make ends meet and even begin to save. Paired with a Baby Bond, this tax credit would go a long way toward closing the racial wealth gap.

Colorado already has its own state version of the Earned Income Tax Credit (EITC), which allows Coloradans to claim up to 10 percent of the federal credit. By expanding the claimable percentage for this state tax credit and allowing it to be dispersed on a monthly basis, hundreds of thousands more Colorado families could be lifted out of poverty. With the addition of another state tax credit similar to Sen. Harris', even more Colorado families could be lifted out of poverty.

Down Payment and Renter's Assistance

Senator Elizabeth Warren's American Housing and Economic Mobility Act creates a down payment assistance program for first-time homebuyers in low-income communities and communities of color in historically redlined neighborhoods. By specifically targeting first-time homebuyers in these areas, this proposal would provide access to homeownership to millions of people of color and Americans with low incomes by helping them overcome the first hurdle to homeownership: a down payment.

Sen. Booker's Housing, Opportunity, Mobility, and Equity (HOME) Act introduces a tax credit for every renter paying over 30 percent of their gross income in rent. The maximum payout is the difference between 30 percent of income and the average fair market rent (FMR) for that area. If someone pays more than FMR, the credit is capped at the gap between 30 percent of income and FMR.

With more than 25 percent of all Coloradans currently rent burdened and the disparities in homeownership, it's easy to conclude Coloradans of color are impacted the most adversely. By providing assistance to these renters, the state can free up at least 70 percent of income for these Coloradans to put toward other expenses and savings.

The two solutions mentioned above could be scaled at the state level. Both would have an effect on Colorado's housing crisis, as well as the racial disparities in the rental and housing markets. Paired with a Baby Bond and an expanded EITC, these policies would work together to tangibly reverse the policy decisions that created the racial wealth gap, while providing relief to hundreds of thousands of Coloradans of color and building transferrable wealth among communities of color.

Progressive Tax Reform

Before any of the above solutions are even considered, an overhaul of Colorado's tax structure is essential. The Taxpayer Bill of Rights (TABOR) has been a part of Colorado's state constitution since 1992. One aspect of TABOR requires the state utilize a flat tax rate, meaning all Coloradans regardless of income pay the same rate. For context, the federal tax structure is progressive, increasing according to income level and allowing low- and middle-income Americans to put less of their income toward federal taxes than the country's most wealthy. In Colorado, a flat tax rate means the state must find other revenue streams to fund essential state government services, primarily through property and sales taxes. The result: Coloradans with low incomes spend more of their income on state taxes than wealthy Coloradans.

The Colorado Fiscal Institute (CFI) finds households earning $32,000 currently pay 9 percent of their annual income in state and local taxes. This is compared to households earning $400,000, which pay roughly 6.5 percent. CFI also says tax cuts in Colorado's flat tax system overwhelmingly benefit the wealthiest Coloradans. A recent proposal to cut the state tax rate by 0.14 percent would save Coloradans who make $10 million more than $12,600, while Coloradans earning $20,000 would only see savings of $6. The Bell's data shows white Coloradans are more likely to have higher levels of income than Coloradans of color, with the latter more likely to be impoverished. Combined with CFI's analysis, this means Colorado's flat tax likely places a heavier burden on Coloradans of color.

With a progressive tax structure that marginally increases tax rates by income level, our state could actually reduce the amount of taxes paid by families with middle and low incomes, while also providing these Coloradans with essential assistance in getting a leg up and building a better, more prosperous future. In the process, everyone benefits.

Conclusions

Coloradans of color are disproportionately more likely to experience negative economic outcomes on the basis of their race alone. Unfortunately, this trend persists without much improvement. In the future, it will be necessary to assess how growing gentrification, wage stagnation, and disparities in earned wages have impacted the racial wealth gap. Additionally, an assessment of racial disparities and discrimination in Colorado's lending market over time, in addition to exploration of the causes for the decline in black homeownership after 2010, are important areas of inquiry.

The Bell's findings show policy solutions must target holistic wealth rather than solely one asset or another. Whatever solutions Colorado pursues, the state must first address its flat tax structure and explore alternative systems that will increase state revenues without placing undue burden on Colorado's working class.

[i] Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pacas and Matthew Sobek. *IPUMS USA: Version 9.0* [dataset]. Minneapolis, MN: IPUMS, 2019.
https://doi.org/10.18128/D010.V9.0

[ii] Baradaran, Mehrsa. "The New Deal for White America." The Color of Money: Black Banks and the Racial Wealth Gap, The Belknap Press of Harvard University Press, 2017, pp. 108–113.

[iii] Ibid.