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Connecticut Housing Finance Authority

Equitable Homebuying

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The History

State Housing Finance Agencies (HFAs) were born out of the Civil Rights movement which began in the mid-1950s and ultimately culminated in the adoption of significant legislation. Some of this legislation looked to stop decades' worth of unfair and discriminatory lending practices by lenders, such as redlining, the act of not providing financial services to a particular neighborhood based on the racial and ethnic composition of the neighborhood. Residential redlining was born out of the Great Depression with the creation of the Home Owners' Loan Corporation (HOLC). HOLC was a government sponsored corporation established in 1936 as part of the New Deal, with the purpose of stabilizing the residential lending market. HOLC purchased and refinanced mortgages for homeowners who were at risk of losing their homes and provided flexible lending which helped families purchase and own a home. HOLC loans had lower interest rates, had smaller down payment requirements, and provided longer-term amortizing mortgages (Dougherty, 2019). HOLC financed 1,017,821 homes at an average amount of just over $3,000 totaling over $3 billion (Rae, 2003) or roughly $1 trillion as a share of today's economy (McCarthy, 2020).

While HOLC provided flexible financing options, these were not available to all. In a dubious attempt to mitigate risk, HOLC agents created color-coded lending risk maps which weighed a neighborhood's racial and ethnic composition as a significant risk factor. Neighborhoods with significant proportions of people of color or eastern and southern European immigrants were deemed to be high risk (Rothstein, 2017; Dougherty, 2019; McCarthy, 2020).

c. Detrimental Influences. A slum area.

d. Percentage of land improved 95 %; e. Trend of desirability next 10-15 yrs Downward

2. INHABITANTS:
a. Occupation Laborers & domestics b. Estimated annual family income $ 1,000

c. Foreign-born families 34 %; Italians predominating; d. Negro Yes ; 66 %

e. Infiltration of Same ; f. Relief families Many

g. Population is ~~increasing~~ ; ~~decreasing~~ ; static

Figure 1: HOLC Excerpt for Neighborhood in Hartford, CT

Additionally, the Federal Housing Administration (FHA) also relied on racial composition of neighborhoods to estimate home values (McCarthy, 2020).

While the practice of redlining became illegal with the passing of the Fair Housing Act of 1968, and the Community Reinvestment Act was enacted in 1977, the legacy of redlining and disinvestment in affected communities remains. State HFAs were established to provide financing mechanisms in order to help create housing for low- and moderate-income households. Initially this was somewhat limited to HFAs providing below-market lending using tax-exempt bond financing.

By 1969, the Connecticut General Assembly established the Connecticut Mortgage Authority (CMA), which had the power to issue tax-exempt debt for the purpose of providing mortgages for low and moderate-income housing. The CMA would eventually become the Connecticut Housing Finance Authority (CHFA) and gain the authority to issue mortgage loans directly to consumers, eventually offering targeted lending products to urban municipalities. Since the late 1980s, HFAs have administered the Low-Income Housing Tax Credit program as a way of encouraging the production of more affordable housing units. Additionally, HFAs provide flexible homebuyer lending products to encourage homeownership.

Since its inception, CHFA has provided over 146,000 mortgages to primarily first-time homebuyers in every municipality in the state. Initially CHFA provided a limited number of mortgages in a given year. Under this model CHFA's first-time homebuyer program was always oversubscribed as eligible borrowers would need to apply through a lottery process.

CHFA transitioned to a participating lender model where nearly 70 bank, brokers, or mortgage companies could offer borrowers CHFA mortgage products throughout Connecticut. In 2019, CHFA financed 2,877 homebuyer mortgages totaling more than $524 million and 1,399 homebuyer mortgages during the COVID-19 pandemic in 2020. CHFA also offers a down payment assistance loan program (DAP) as a second mortgages. DAP has long been a critical tool in assisting borrowers lacking the resources to pay for downpayment or closing costs.

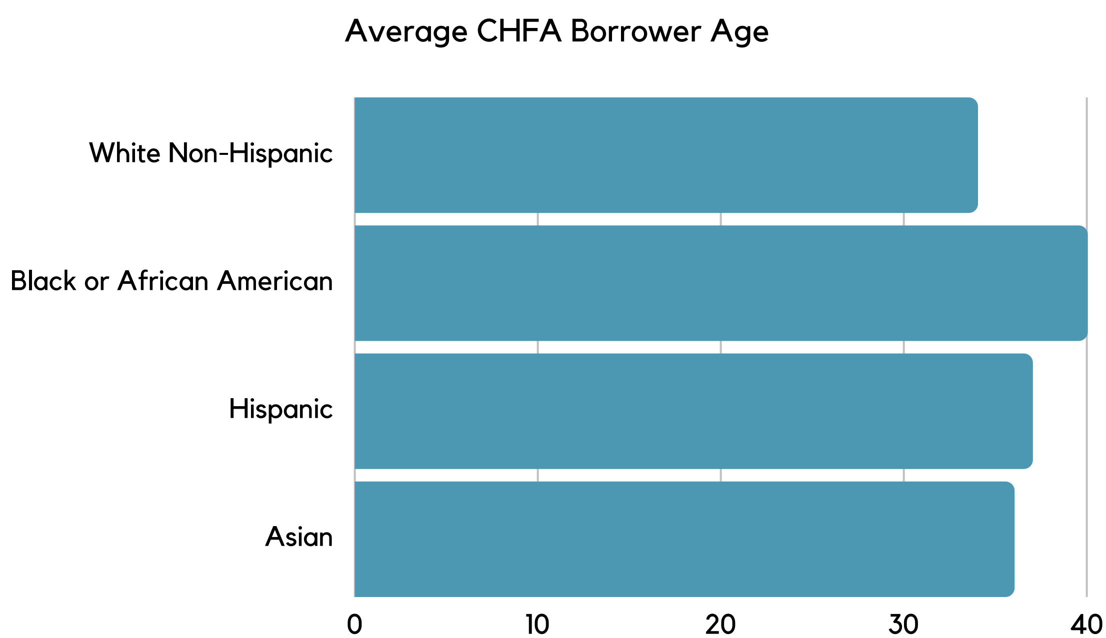
Barriers to Homeownership

A recent paper published by the Partnership for Strong Communities, "Building a More Equitable Homebuying System" (Giraldo, 2021), provides an assessment of some of the historical and current barriers of homeownership for black Americans and other people of color. Several decades of discriminatory lending practices and housing policies have led to a significant wealth and homeownership gap between black and white Americans. Due to this gap, it is important to recognize that not just income, but wealth is fundamental in achieving financial security (Asante-Muhammad et al., 2017). According to a study conducted by the Duke Center for Social Equity and Insight Center for Community Economic Development at the New School, income does not correspond with wealth, especially as it relates to race (Hamilton et al., 2015).

The income gap between black and white Americans has slowly shrunk, with black incomes remaining at about 60 percent of white income. The wealth gap between black and white households is significantly greater, with black wealth at approximately five percent of white wealth (Rothstein, 2021). This significant gap in wealth is a direct result of subsequent generations not being able to build equity through homeownership over time (Rothstein, 2017).

There are existing homeownership programs that attempt to address some of these issues and provide greater access to homeownership to low- and moderate-income borrowers. However, some of these programs may contain restrictions that potentially have unintended consequences that stifle wealth building and discourage economic mobility. FHA loan products may provide flexible underwriting which can help a borrower purchase a home, however additional fees and mortgage insurance adds additional costs which add up over time (Giraldo, 2021).

Since January 2017 CHFA has provided roughly 10,500 first mortgages with 12 percent of those loans being made to black or African American borrowers. Black or African American (non-Hispanic) borrowers were generally six years older than their white counterparts which may also explain why black CHFA borrowers tend to have larger households compared to white borrowers and are more likely to have minors within the household. In fact, black borrowers on average have 0.92 minors per household compared to just 0.49 for white non-Hispanic borrowers



While there may be a variety of reasons why black or African American borrowers are older on average, one of the potential significant reasons may be because past lending practices and housing policies have hampered the ability of black Americans to accumulate intergenerational wealth through homeownership, delaying the ability of the average black homebuyer to make this important investment. It is a frequent and common practice that first-time homebuyers receive financial assistance from a family member to purchase their first home. One of the most common ways for a family to provide such financial assistance is through drawing equity generated from years of owning a home. Due to the low homeownership rate among black or African American households, cash that may be generated through home equity continues to be a scarce resource. Communities with high levels of black or African American homeownership are often communities which have seen limited property value appreciation, again limiting the ability to draw on home equity to help provide cash for a home purchase.

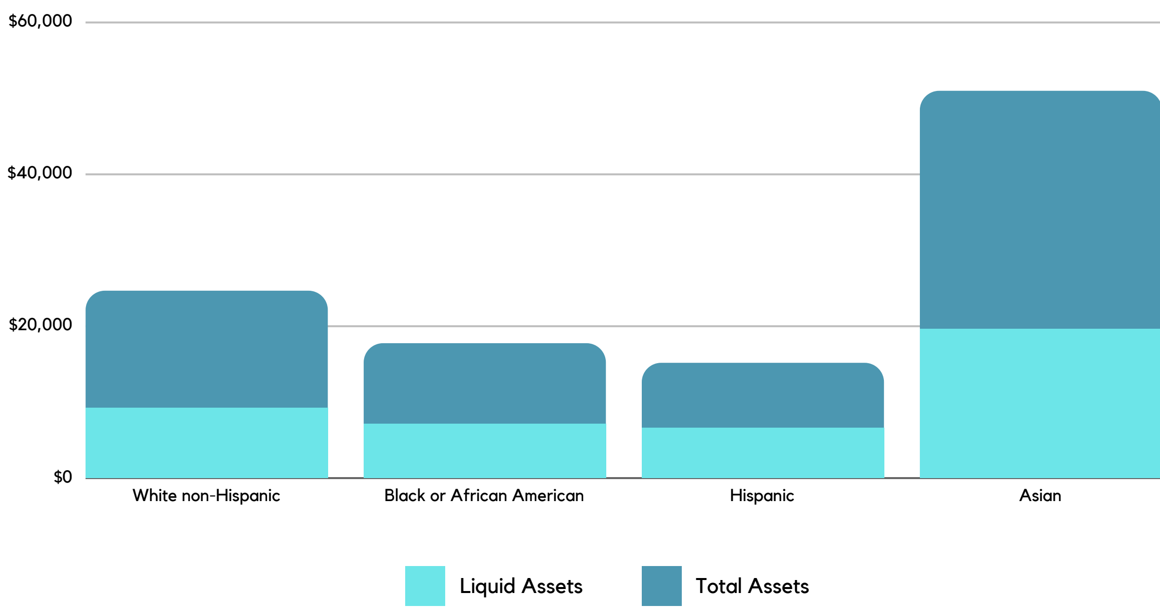
The lack of generational wealth may also account for the higher rate of CHFA's DAP loan utilization among black or African American borrowers. Of the 1,240 loans made to black or African American borrowers since 2017, some 49.1 percent have also received a DAP second mortgage. This is significantly higher than the 38.7 percent of white non-Hispanic borrowers and the 16.6 percent of Asian Americans using a CHFA DAP loan. Roughly 56 percent of Hispanic CHFA borrowers also use a DAP loan to cover downpayment and closing costs. A portion of first-time homebuyers rely on a cash “gift”, frequently from family, to help with downpayment and closing costs. While the percentage of borrowers who receive a gift doesn’t vary all that much based on race and ethnicity, the average and median gift amount does. Likely due to the generational wealth gap, white non-Hispanic borrowers average a $5,140 gift while black or African American borrowers averaged a $4,500 gift. Hispanic borrowers had the lowest average gift of just over $3,500. The median gift amounts were slightly similar, with white non-Hispanic borrowers’ median gift at $3,500, black or African Americans at $3,000, and Hispanic borrowers at $2,500.

CHFA’s DAP program may be the only way for a cash-strapped family to qualify to purchase their first home. However, taking out a second mortgage to cover downpayment and closing costs may result in unintended consequences.

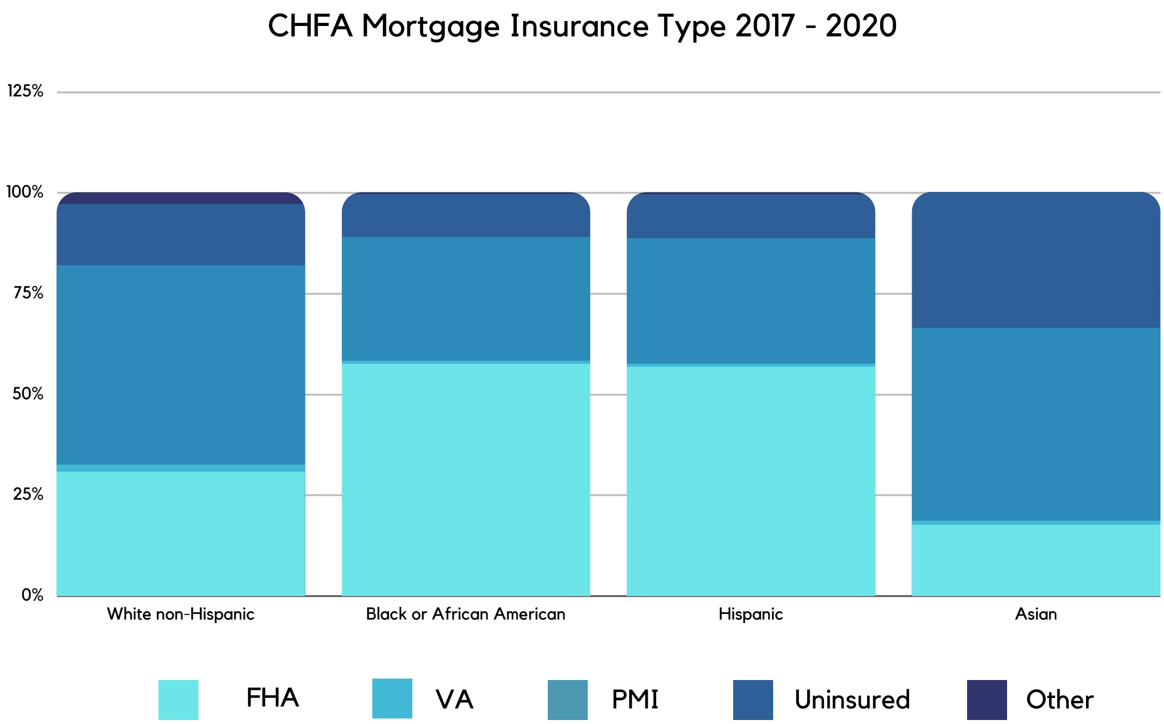
Because CHFA's DAP program is not a grant and its rate and term mirror the CHFA first mortgage, the downpayment and closing costs are generally paid back with interest for the life of the loan. This results in additional financing costs and a slower rate of equity growth compared to those borrowers who did not rely on a DAP loan.

Black or African American borrowers generally have less in both total assets, and more specifically, liquid assets than other borrowers. Having liquid assets at the time of purchasing a home reduces the need for a borrower to take out a second downpayment assistance mortgage and may help the borrower more quickly build equity. A typical CHFA borrower will have $27,120 in total assets and $17,656 in liquid assets. More accurately, the median is significantly lower, with total assets closer to $13,166 and liquid assets a mere $8,678. Black or African American borrowers' median liquid assets are approximately $7,097, while Hispanic borrowers' median liquid assets are $6,576 at the time of purchase. The median for a white non-Hispanic CHFA borrower is $9,174, while Asian American CHFA borrowers have the highest levels of total assets and liquid assets, with a median of $31,247 and $19,595 respectively.

Median Assets by Race/Ethnicity
CHFA Borrowers 2017 - 2020



Within CHFA's own homeownership lending portfolio, there are some interesting differences among white non-Hispanic borrowers and black/African American or Hispanic borrowers. Black or African American and Hispanic borrowers tend to rely on CHFA's FHA insured lending products at nearly double the rate of white non-Hispanic borrowers. FHA insured lending products will always require some level of mortgage insurance, adding to the cost over the life of the loan. While rules vary around how long mortgage insurance is required on an FHA insured loan vary, many FHA loans will require that mortgage insurance be paid monthly for the life of the loan. As highlighted in the report from the Partnership for Strong Communities, additional costs tend to impact black or African American and Hispanic borrowers the most, with a recent report estimating that borrowers are paying $765 million in extra interest per year (Bartlett et al., 2019).



One of the potential factors for why black or African American and Hispanic CHFA borrowers use the FHA product over others may come down to FICO score. Since 2017, the median CHFA borrower's FICO score is 723, however it does vary based on race and ethnicity.

CHFA Borrower FICO Score (2017 - 2020)

White	728
Black or African American	687
Hispanic or Latino	696
Native Hawaiian or Other Pacific Islander	717
Asian	742
American Indian or Alaska Native	682
Multi-Race	732
TOTAL MEDIAN	**718**

Although Connecticut is a rather small state, it does contain a variety of different housing markets. Generally, the highest priced housing is found in Fairfield County and overall, away from the state's urban centers. While houses priced within CHFA's home sales price limits can be found throughout the state, CHFA's typical borrower purchases a home for around $200,000, with the average loan size at about $180,000. The availability of housing stock at this price point will limit borrowers' ability to select the community where they wish to purchase a home. While the typical loan size does not vary greatly between black or African American and white non-Hispanic CHFA borrowers, where borrowers are purchasing homes does.

Over the last five years, CHFA mortgages have been used to purchase a home in most municipalities in Connecticut. Most of CHFA's lending tends to be in housing markets where single family homes sell at relatively lower price points: Bristol, Waterbury, Hartford, Manchester, and New Britain. However, black or African American CHFA borrowers' choices of homes were less distributed throughout the state and tended to be located in urban communities and communities with higher percentages of black or African Americans: Hartford, East Hartford, Bridgeport, New Haven, and Waterbury.

Municipalites Where CHFA Borrowers Purchase

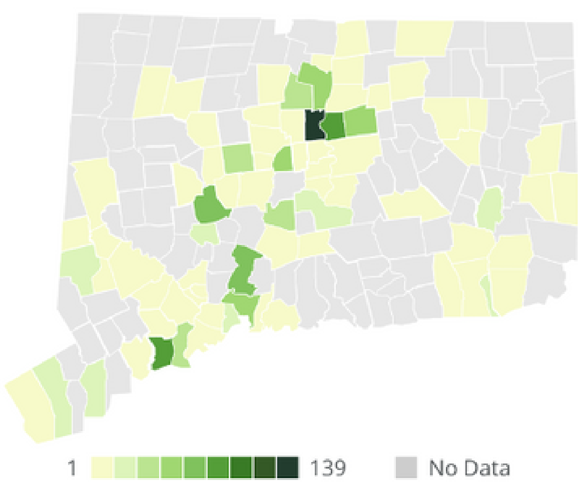


Figure 2 – Black CHFA Borrowers

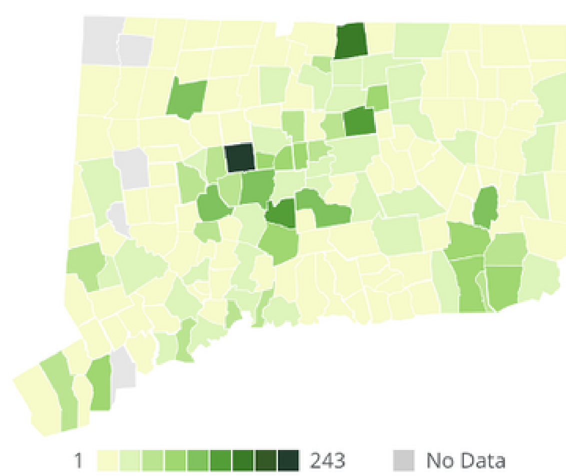


Figure 3 – White (non-Hispanic) CHFA Borrowers

This is in stark contrast to white non-Hispanic borrowers who tended to purchase in first and second ring suburbs where there is a majority white population: Bristol, Enfield, Manchester, Meriden, and Waterbury. While this pattern, in and of itself, does not infer that discriminatory lending practices are at play, it may indicate a potential lack of mobility for black and African American households. There continues to be uncertainty around whether consumer preferences, realtor practices, or other less understood factors play a major role in determining where a first-time homebuyer buys their first home. More research is needed to gain a better understanding of the significant and contributing factors in the mobility of first-time homebuyers.

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