Racism Reflection   September 7, 2020   NSMC   Dan Graber

When people ask, "What is systemic racism?" this article explains some of it. It is like when we are in many foreign countries, there is a price for locals and then the price for foreigners. Usually we can afford the markup – if it's not too big. But imagine having to pay extra for everything?

A weak comparison is I have an older friend who owns a very small "farm", who wanted to borrow money to make some improvements on his farm. But he could not. He did not have a good enough credit rating – because he stayed out of debt and paid off his credit card immediately! Even with the land for collateral – he could not find a lender! The "system" did not reward him for being a good steward and good manager of his wealth. One banker told him bluntly – "you don't borrow enough or have enough debt history for us to lend you money."

So take in this article about racism. It seems to me that in the Kingdom of God, the system should be the other way around in God's economy. What is the situation in Canada?

This isn't just about racism, it's also about an upside down economy where people with less money and less income and less wealth, have a higher cost when they borrow money.

'It's a tax on being Black in this country' —
5 ways racism is embedded in the housing industry

Provided by Dow Jones Jul 25, 2020 6:48 AM CST By Clare Trapasso

Black Americans still trail behind other races when it comes to owning a home. When they do purchase homes, they are more likely to be offered more expensive mortgages.

The American dream of homeownership is something that millions aspire to achieve, a gold standard for success. It has catapulted generations into the middle class, as owners have reaped the rewards of rising real estate prices. But that dream has proved elusive for countless people of color.

As the nation grapples with the legacy of systemic racism, it's forced many to take a harder look at the racism embedded in the housing industry.

More than half a century after the Fair Housing Act banned housing discrimination, Black Americans still trail behind other races when it comes to owning a home. **When they do purchase homes, they are more likely to be offered more expensive mortgages--despite earning significantly less money than other ethnic groups.**

Home buyers in predominantly Black communities are being issued loans with mortgage interest rates that are 13 basis points higher than in predominantly white communities, according to a realtor.com(R) analysis of 2018 and 2019 purchase mortgage data from Optimal Blue, a real estate information company. (One basis point equals 1/100 of 1%. The difference between a mortgage rate of 3.52% and a rate of 3.62% is 10 basis points.)

"It's a tax on being Black in this country. It's a tax on being poor or financially vulnerable," says Brett Theodos, a senior fellow at the Urban Institute, a nonpartisan research group based in Washington, DC. "At every turn, Blacks are paying more than whites to borrow money or to access money."

While 13 basis points may seem like a drop in the bucket, the combination of that rate difference and a smaller down payment adds about $43 a month to a mortgage payment for a $281,000 home (the median U.S. home sale price in June, according to Optimal Blue). It also tacks on roughly $9,869 of interest over the life of a 30-year fixed-rate loan.

(This calculation is based on the average rate of 3.03% as of July 9, and assumes a down payment of 3%, which is the median in these largely Black communities. The median down payment was 5% in largely white ZIP codes. Since the data did not specify the race of the borrower, the analysis compared borrowers in ZIP codes where the population was at least 70% Black with those where the population was at least 70% white.)

"Generations of enslavement, of Jim Crow disenfranchisement, of redlining by banks and the federal government to exclude Blacks from affordable homeownership has resulted in lower homeownership rates for Blacks [and] paying more for mortgages," says Theodos.

Those higher costs are in part a byproduct of systemic racism that has resulted in higher unemployment and poverty rates in Black communities, with less wealth passed down from previous generations--wealth that would often be used to help children and grandchildren buy their own homes or pay for college.

But other factors are also at play, which may not at first glance appear linked to race but that are more likely to affect borrowers in Black communities. These include requirements for credit scores and down payments that can be harder for those without good-paying jobs to meet. There is also an absence of local lenders offering competitive rates in communities of color as well as individual lender discretion, where bias has the opportunity to seep in.

Paying more to borrow money

Lenders have become notoriously risk averse in the aftermath of the Great Recession, which led to a foreclosure crisis that decimated many Black neighborhoods. If borrowers don't have sterling credit and ample cash reserves, they're seen as more likely to default on their loans, and charged more.

That's one explanation for why buyers in Black communities may be issued more expensive loans. In addition to putting less money down, they have lower credit scores, 687 compared to 727 in predominantly white communities. They also carry more debt, with debt-to-income ratios of 41.4% versus 38%. Nationwide, Black households earned a median $41,511--roughly 39% less than white ones, at $67,937, according to 2018 U.S. Census Bureau data.

"It's more expensive to borrow money when you have less of it," says Theodos.

However, even when looking at borrowers with similar credit profiles, buyers in Black communities were still charged more to take out loans. Borrowers from white communities with FICO scores of 700 and higher got mortgage rates that were 8 basis points lower than the median for their particular metropolitan area. Meanwhile, borrowers in Black communities with similarly high credit scores didn't get the same discounts.

The difference may at least partly lie in their down payments. In white ZIP codes, buyers with credit scores of 700 and up put down a median 10% of the purchase price of the home. In Black ZIP codes, comparable buyers made a median down payment of 5%.

The difference of just 8 basis points and a smaller down payment tacks on an extra $71 a month and $11,282 in interest over 30 years.

"It certainly adds up," says Steve Ross, an economics professor at the University of Connecticut and co-author of "The Color of Credit: Mortgage Discrimination, Research Methodology, and Fair-Lending Enforcement."

"If you have a higher-cost mortgage, you're less likely to be able to weather a job loss or health problem ... and avoid foreclosure," says Ross.

Historic discrimination still affects Black borrowers

These problems have deep roots that stretch back many generations. The federal government, developers, banks, and many others made it difficult--in some cases impossible--for many Black Americans to become homeowners until the late 1960s.

Barred from buying in white neighborhoods, Black buyers with their hearts set on homeownership purchased property in less desirable neighborhoods at often inflated prices, with fewer resources. Homes in white areas have generally appreciated significantly over the ensuing decades. Meanwhile, property values have risen much less in value in Black communities that haven't been gentrified.

Homes in Black-dominated communities sold for a median $210,000 compared to $260,000 in mostly white communities, according to realtor.com's analysis.

"Many white families have long been accustomed to being able to bring cash to the table or help their children," says Barry Zigas, a senior fellow at the Consumer Federation of America, a national umbrella group. "Loans with higher down payments have lower interest rates."

Today, almost three-quarters of white Americans, 73.7%, are homeowners--compared to just 44% of Blacks in the first quarter of 2020, according to U.S. Census Bureau data. That may be one of the reasons that white families have nearly 10 times the median net worth of Black families--$171,000 versus $17,600, according to the Board of Governors of the Federal Reserve System. The Fed's Survey of Consumer Finances analyzed 2016 data.

"When you start 200 yards back in the race, it's hard to catch up," says the Urban Institute's Theodos.

Limited local options for lenders

Lower-income, minority communities have long struggled with a lack of resources that define attractive and convenient places to live, such as banks and grocery stores. That dearth of resources can cost them dearly when it comes time to purchase a home.

With the absence of a bank or credit union in the community, many prospective home buyers will go to local mortgage brokerages for help in getting a loan. The overwhelming majority aren't predatory. But in areas where there aren't other options, there is potential for exploitation.

"It's great they're serving the community, but it's bad because they have a lot of market power. We know how monopolies set prices," says economics professor Steve Ross at the University of Connecticut in Storrs. "This can be extraordinarily abusive."

In addition, the smaller brokerages are often doing fewer loans than the big banks. So they charge more because they can't spread out their costs as much.

On the other hand, community lenders may be more willing to work with applicants who have nontraditional streams of income, like the buyer who does a lot of odd jobs or takes in rent from family members or boarders. Bigger banks and lenders may not take this income into account.

"For people who are already leery of the process, working with someone in the community is invaluable," says Donnell Williams, president of the National Association of Real Estate Brokers, an organization for Black real estate professionals.

"I send my people to mortgage bankers who develop a relationship with the client," adds Williams, a broker with Destiny Realty in Morristown, NJ.

Credit profiles can hurt lower-income buyers of color

The lack of traditional banks in communities of color can also hurt residents' credit profiles. Poorer neighborhoods tend to be richer in check-cashing services, which can charge higher fees than traditional banks and don't help residents build the kind of credit that traditional lenders are seeking.

Lenders carefully scrutinize applicants' finances when deciding whether to grant loans. They want to make sure borrowers have steady employment, low debt, and an excellent credit history that shows they're likely to repay their loans on time--with interest.

Folks build good credit by taking out loans for college tuitions or cars, or by using credit cards and making their payments on time. Many lower-income Americans, a group in which people of color are disproportionately represented, don't have student loans or credit cards. What they do have: monthly rent, utility bills, and cellphone payments, which typically aren't counted toward credit profiles.

"There's a long history of unequal treatment and unequal access to credit," says the Consumer Federation's Zigas.

Bias in lending persists today