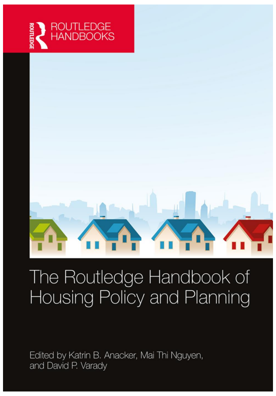

The Routledge Handbook of Housing Policy and Planning

Katrin B. Anacker, Mai Thi Nguyen, David P. Varady

Non-Hispanic White Versus Black Parental Wealth and Wealth Transfers to Enable Homeownership in Five Metropolitan Areas

Publication details
https://www.routledgehandbooks.com/doi/10.4324/9781315642338-5
Erin Graves, Ana Patricia Muñoz, Darrick Hamilton, William A. Darity, Yunju Nam
Published online on: 12 Jul 2019

4

NON-HISPANIC WHITE VERSUS BLACK PARENTAL WEALTH AND WEALTH TRANSFERS TO ENABLE HOMEOWNERSHIP IN FIVE METROPOLITAN AREAS

Erin Graves, Ana Patricia Muñoz, Darrick Hamilton, William A. Darity, and Yunju Nam

Introduction

Helping households become homeowners has been an enduring goal of U.S. housing policy since the mid-twentieth century, ranging from the National Housing Act of 1934 to the current Mortgage Interest Deduction (Shlay 2006). Yet Black homeownership rates have persistently been lower than those of non-Hispanic Whites and have decreased recently (Kuebler and Rugh 2013). Racial and intergenerational wealth disparities have been an important but overlooked factor contributing to the racial homeownership gap.

Despite a recent decrease in the national homeownership rate, homeownership has remained the single largest component of wealth building among most middle- and upper-income households (Wolff 2014). The return on housing as an investment depends on the location, the neighborhood, school quality, the age, size, and condition of the property, and many other factors (Flippen 2001). Mortgages are one of the few mechanisms available to many Americans that allow them to leverage and build wealth (Choudhury and Hartman 2015). Thus, lower homeownership rates among Blacks indicate unequal participation in wealth building (Gordon 2005; Kuebler and Rugh 2013; Piketty 2017).

Homeownership, often framed as an essential component of the American Dream, has also considerable ideological and political appeal (Vale 2007). Homeownership may serve as asset-based welfare, preventing poverty (McKee 2012). Homeownership has been associated with well-being, civic engagement, and positive child outcomes (Bond and Erikson 2016; Green and White 1997) and thus is supported by public policy.

Over the past three decades, the national U.S. homeownership rate peaked at 69 percent in 2004, and then declined to 64.8 percent in the last quarter of 2018. By comparison, the Black homeownership rate stood at 49.7 percent in 2004, and declined to 42.9 percent in the last quarter of 2018, a decline larger than that of any other racial or ethnic group (U.S. Bureau of the Census 2019). The homeownership rate among Blacks may decrease to 40 percent by 2030 (Butrica 2015; Kuebler and Rugh 2013). The White-Black homeownership gap has been persistent over the past five decades. Indeed, the gap between the non-Hispanic White versus the Black homeownership rate increased from 19 percentage points in 1960 to 28 percentage points in 1980 but fell to 22 percentage points at the peak of the housing bubble in 2007 yet increased again to 25 percentage points in 2018 (Collins and Margo 2011; Seah and Fesselmeyer 2017; U.S. Bureau of the Census 2018). Thus, policymakers have tried to increase the Black homeownership rate, employing tools such as homeownership counseling (Bond and Erikson 2016).

The Black homeownership rate varies by region (Kuebler and Rugh 2013). It is highest in the South at 53.8 percent of households, compared to 47.8 percent in the Midwest, 36.9 percent in the West, and 34.8 percent in the Northeast (Leigh and Huff 2007; Kuebler and Rugh 2013). However, home values in the South are lowest compared to other regions (Krivo and Kaufman 2004). These regional variations indicate that place matters for both homeownership rates and wealth accumulation.

Scholars have attempted to explain the racial and ethnic differences in homeownership rates, focusing on differences between non-Hispanic White and Black households (Gabriel and Rosenthal 2005; Gyourko and Linneman 1996). Some scholars attribute the gap to individual differences in human capital (e.g., formal education) or limits on how much a household can borrow (Diaz and Luengo-Prado 2008; Duca and Rosenthal 1994; Gabriel and Rosenthal 2005; Haurin et al. 1996; Haurin and Rosenthal 2007). Other scholars attribute the gap to structural differences that manifest themselves during the home buying process and in mortgage markets (Bond and Erikson 2016; Munnell et al. 1996; Ross and Tootell 2004; Yinger 1998; Zhao et al. 2006). Nevertheless, even after accounting for these differences, the disparity in homeownership rates between non-Hispanic White and Black households has endured (Bond and Erikson 2016), suggesting that additional factors contribute to this gap.

In this chapter we focus on how intergenerational transfers of wealth factor into the homeownership gap and draw a link between homeownership rates, intergenerational wealth building through homeownership, and the wealth gap between non-Hispanic White and Black homeowners. We review the literature on the wealth gap between non-Hispanic White and Black households and its relationship to the racial homeownership gap. We discuss the role of differences in parental wealth on financial transfers to offspring for five metropolitan areas. We analyze the differences between non-Hispanic White and Black households, controlling for many factors. We also discuss some of the impacts of polices on the racial wealth gap and how homeownership is both shaped by intergenerational wealth and shapes subsequent intergenerational wealth.

Wealth and Housing Finance

About two-thirds of U.S. homeowners and 90 percent of first-time homebuyers finance their homes through a mortgage (Lee and Reed 2014). Financing a mortgage requires borrower income—a flow of financial resources, most often received through work, but also through government transfers or investments—and in most cases, a down payment (Killewald et al. 2017). Wealth used for down payment may be based on savings accounts, stocks, bonds, vehicles, gifts, or another home (Chetty et al. 2017; Engelhardt 1996).

In housing finance, a borrower uses his or her income and wealth for different purposes. A portion of a borrower's income is typically used for the monthly mortgage payment. Industry standards state that about one-third or less of the income should be applied toward housing costs, which includes not only the mortgage but also taxes, maintenance, and insurance (Schwartz and Wilson 2008). A portion of a borrower's wealth is typically taken for the down payment. Larger down payments can either lower the monthly mortgage payment or allow a buyer to buy a more expensive home, which may increase the return on the investment and may also enable access to neighborhoods with better public goods, such as high-quality schools, low crime rates, and proximity to public transportation, as well as other desirable amenities (Brueckner 1986).

Mortgages allow households to leverage their assets and build wealth. A homebuyer with a modest down payment (which can actually be 0 percent for a Veteran's Administration (VA) mortgage or as low as 3.5 percent for a mortgage insured by the Federal Housing Administration (FHA) and up to 20 percent for a conventional mortgage) benefits from the gains in the home's value (Case et al. 2005). While the cost of financing may create negative leverage, its risk decreases over time because the value of the house compounds while the debt payment is fixed (Herbert et al. 2013). During the Great Recession, when house prices in most regions and many neighborhoods decreased, households lost significant wealth (Grinstein-Weiss et al. 2015).

For some borrowers, the lack of wealth for the down payment constitutes a serious barrier to homeownership and may affect the level of wealth accumulation through homeownership (Myers et al. 2016; Ortalo-Magne and Rady 1999; Quercia and Wachter 1996). Thus, some buyers use low down payment mortgages, such as VA mortgages and mortgages insured by the FHA, mentioned earlier. Mortgages with a down payment of less than 20 percent require private mortgage insurance, which adds to the monthly payment. Other buyers may delay or forgo a home purchase, which reduces potential wealth accumulation (Bayer et al. 2017; Krivo and Kaufman 2004).

Research has found that intergenerational wealth transfers are an important mechanism for generating down payments (Bond and Erikson 2016; Engelhardt and Mayer 1994). Young adults are more likely to transition into homeownership if their parents are also homeowners partly because parents often draw upon their own housing equity to help their children (McKee 2012; Myers et al. 2016). Thus, the lower homeownership rates in one generation may influence rates in the next.

The Non-Hispanic White Versus Black Gap in Income and Wealth

The income and earnings gap between non-Hispanic Whites and Blacks and its increase in the 2000s and 2010s have been widely recognized (Galster and Sharkey 2017; Mandel and Semyonov 2016; Traub et al. 2017). In terms of income, Chiteji and Hamilton (2010) found that for every dollar that a typical non-Hispanic White person earns, a Black person earns about 60 cents.

The wealth gap between non-Hispanic Whites and Blacks is even more profound than the income and earnings gap and may have serious implications. Studies show that Black households possess about a tenth of the wealth of non-Hispanic White households, although findings vary, depending on the data source (Oliver and Shapiro 2006; Wolff 1998). The Great Recession caused an increase in the racial wealth gap (Shapiro et al. 2013). Shapiro et al. (2013) followed households over 25 years and found that, controlling for inflation, the nominal total wealth gap between non-Hispanic White and Black households nearly tripled, increasing from $85,000 in 1984 to $236,500 in 2009, when the Great Recession technically ended. Even post Great Recession, Blacks' wealth gains were smaller relative to non-Hispanic Whites. Kochhar and Fry (2014) found that in 2010, non-Hispanic White households possessed eight times the median wealth of Black households and that by 2013 they possessed 13 times the median wealth of Black households. Without wealth, households have fewer resources to face hardship or to make investments in education, entrepreneurship, or homeownership (Oliver and Shapiro 2006).

Many factors have contributed to the wealth gap between non-Hispanic Whites and Blacks. These factors include gaps in household income, unemployment rates, and access to and returns from college education. Interestingly, these differences explain a greater share of the wealth gap between non-Hispanic Whites and Blacks at the top of the wealth distribution than at the bottom (Sykes and Maroto 2016; Thompson and Suarez 2015). Educational attainment, income, occupation, and years spent working have been identified as among the most important set of factors explaining the racial wealth gap. These account for one-third to two-fifths of the portion of the wealth gap that can be explained through the analysis of survey data (Thompson and Suarez 2015). However, racial bias can influence these factors. Educational attainment, for example, depends in part on the quality of locally provided education and, due to residential segregation, could differ systematically across racial groups. Incomes are not fully explained by educational attainment, due to biased hiring practices and other forms of racial discrimination (Fryer et al. 2011).

Moreover, the wealth gap is not explained by differences in spending choices between non-Hispanic White and Black households with similar incomes (Charron-Chénier et al. 2017; Traub et al. 2017). Nor is it explained by differences in indebtedness. Using the Survey of Consumer Finances, Thompson and Suarez (2015) show that holding all else constant, the differences in debt between non-Hispanic White and Black families are insignificant and that the difference in mean wealth between these groups is due to assets. Generosity of parents also does not explain the racial wealth gap. Although non-Hispanic White households typically have more wealth to pass on to their children, among Black parents and non-Hispanic White parents of comparable net worth, Black parents provide more monetary support for their children's college education (Nam et al. 2015).

Institutional discriminatory practices and public policies have had a profound effect on the accumulation of wealth for Black households. Institutional practices, such as barriers in workplaces, schools, and health care, have reinforced deeply entrenched patterns of racial and ethnic discrimination (Green 1995; Shapiro et al. 2013). Public policies, such as the Social Security Act and the Fair Labor Standards Act, which established the minimum wage, did not cover farm and domestic workers, who were disproportionately Black, until 1966, leaving them at a disadvantage for wealth accumulation (Katznelson 2013).

Past housing discrimination has also greatly contributed to the wealth gap between non-Hispanic White and Black households. These include previous legal discriminatory practices such as restrictive covenants by municipalities, redlining by lending institutions, and the restrictions by the Home Owners' Loan Corporation (HOLC) that excluded Blacks from purchasing homes in select neighborhoods (Hernandez 2009).

Present housing discrimination is shown by the larger proportion of subprime mortgages and foreclosures among Blacks, which has resulted in a decrease of wealth (Anacker and Carr 2011; Anacker et al. 2012; Hwang et al. 2015; Massey 2016; Pfeffer et al. 2013; Rugh and Massey 2010). Even in 2015, 70 percent of Blacks had non-conventional mortgages, which are more expensive than conventional ones as private mortgage insurance needs to be purchased, compared to 36 percent of non-Hispanic Whites (Bhutta and Ringo 2016).

The wealth gap between non-Hispanic Whites and Blacks is also influenced by regional racial differences in economic mobility, employment rates, household incomes, and intergenerational economic mobility (Ellen and Dastrup 2012; Erikson et al. 1993; Hero and Tolbert 1996; Kline and Moretti 2014; Rugh and Massey 2010). While the Northeast, the Great Plains, and the West have higher intergenerational mobility rates, the Southeast and the Midwest have lower ones due to the variation in regional economic growth and in regional and state policies (Chetty et al. 2014), such as state variations in minimum wages, laws around foreclosure and evictions, early education policy, and tax codes. In regions where there are greater concentrations of Black low-wage workers or higher levels of geographic segregation, wages and housing and education policies can have disproportionate effects on Blacks' wealth accumulation.

Housing-related characteristics further explain some of the wealth gap between non-Hispanic White and Black households. Blacks homeowners enter homeownership later in life, own homes with lower values, tend to own their homes for shorter time periods, and exit homeownership at higher rates compared to non-Hispanic White homeowners (Anacker 2010; Charles and Hurst 2003; Flippen 2001; Keister 2000, 2004; Killewald et al. 2017; Krivo and Kaufman 2004; O'Brien 2012; Sharp and Hall 2014). For example, Shapiro et al. (2013) found that 27 percent of the wealth difference between non-Hispanic Whites and Blacks is explained by the number of years of homeownership.

Finally, racial differences in intergenerational wealth transfer itself may also contribute to the homeownership gap between non-Hispanic Whites and Blacks. Inheritances, bequests, and intra-family transfers account substantially for the racial wealth gap (Blau and Graham 1990; Charles and Hurst 2003; Menchik and Jianakoplos 1997; Thompson and Suarez 2015). A Black person's chances of receiving either an end of life inheritance or a financial transfer from their parents during the parents' lifetime is much lower compared to non-Hispanic Whites (Avery and Rendall 2002; McKernan et al. 2014; Menchik and Jianakoplos 1997). A longitudinal study of Black and non-Hispanic White families found that of those who received more than $50,000 in financial transfers, only 10 percent were Black (Thomas et al. 2014). These gaps in transfers are estimated to explain between 10 and 24 percent of wealth disparities between non-Hispanic White and Black households (Nam et al. 2015; Scholz and Levine 2004). An additional substantial portion of the racial wealth gap can be explained by the fact that for Blacks, a large proportion of relatives and friends in poverty may ask for financial support (Chiteji and Hamilton 2002; Feld 1984; McKernan et al. 2014; Shapiro et al. 2013; Thomas et al. 2014). In all, family financial support is a key factor in wealth building: Households who have received inheritances and other financial support from their families build wealth more easily than those who have not. Non-Hispanic Whites report significantly more of this form of support than Blacks (Thompson and Suarez 2015).

Regional differences in house price changes affect a household's wealth and, paired with differences in homeownership rates, may further contribute to racial wealth gaps by region. An extensive literature analyzes regional house price changes. While nationally house prices rose rapidly in the last quarter of the twentieth century, with a quadrupling of the national house price index between 1975 and the end of 2000, there were substantial regional variations. These ranged from a sevenfold increase in the Pacific region from 1975 to 2001 to a threefold increase in the West South Central region. One consequence of these differences is substantial differences in wealth accumulation by region, and these can have racial implications for wealth accumulation as well (Dietz and Haurin 2003). Because Black households had the lowest homeownership rates in the regions with the greatest house price appreciation, the variation in house price trajectories for different regions may affect household wealth, leaving Black households with less wealth to transfer to their offspring.

The Non-Hispanic White Versus Black Wealth Gap and Homeownership: Parental Financial Contributions

One way parental wealth enables the homeownership of offspring is through in vivo transfers, which are transfers of wealth from parents to children during the parents' lifetime, rather than inheritances granted after parents die. In vivo transfers of parental wealth are typically thought to influence the path to homeownership of the offspring in indirect and direct ways (Bond and Erikson 2016).

In regard to indirect transfers, parents may use their wealth throughout a child's upbringing and support their child's education by locating to a neighborhood with a high-quality school. This move may have implications for homeownership of their offspring as a better school may improve prospects for a better paying job (Shapiro 2004). Some households borrow against their home's value to finance a child's college education, making college enrollment more likely and decreasing the need for a college loan (Greenspan and Kennedy 2005; Myers et al. 2016). While the average transfer for education by non-Hispanic White parents is about $12,000, the average transfer by Black parents is about $4,000 (Addo et al. 2016). Lovenheim (2011) found that an increase of $10,000 in housing wealth increases the likelihood of college attendance by 1.37 percent.

Myers et al. (2016) found that there are racial differences in homeownership outcomes between those who receive parental educational support and those who do not. Controlling for the type of college degree, Black students tend to borrow larger amounts at higher interest rates compared to non-Hispanic White students, possibly because they do not have access to parental wealth (Traub et al. 2017).

Direct transfers directly enable homeownership, and parents may use in vivo transfers to assist their children purchasing homes. Scholars have found that about 25 percent of first-time homebuyers received a gift from a family member or a friend to help with the down payment. This transfer is especially important for those between ages 25 and 44 (Charles and Hurst 2003; Myers et al. 2016). Again, the difference between non-Hispanic White and Black first time buyers who receive gifts is pronounced: 27 percent of non-Hispanic Whites reported receiving down payment assistance, compared to 7 percent of Blacks (Charles and Hurst 2002). Moreover, the difference in homeownership rates is insignificant for Black and non-Hispanic Whites who do receive direct assistance from their parents (Hilber and Liu 2008). This suggests that as a consequence of parental wealth differences, non-Hispanic Whites often have increased access to homeownership than Blacks, and at younger ages, leading to larger gains in equity (Charles and Hurst 2002; Traub et al 2017).

In sum, receiving in vivo transfers, regardless of whether they are indirect or direct, has important implications for homeownership and wealth building (and vice versa). On average, non-Hispanic Whites receive greater parental financial assistance than Blacks, which may explain the racial gap in homeownership rates. In the following text we answer two research questions for our study: First, what is the relationship between financial transfers for education and transfers for down payments, differentiating between non-Hispanic Whites and Blacks for five metropolitan areas? Second, what are the differences between non-Hispanic Whites and Blacks for these metropolitan areas?

Data and Methods

The following analysis uses data from the National Asset Scorecard for Communities of Color (NASCC) survey.[1] Using a systematic approach to ascertain that the metropolitan areas represented different regions across the United States, the survey collected information on households in five targeted metropolitan areas (Boston, Massachusetts; Miami, Florida; Los Angeles, California; Tulsa, Oklahoma; and Washington, DC) about the asset and debt positions of racial and ethnic groups for five metropolitan areas (n = 2,746).[2] The survey contains detailed information within racial and ethnic groups, but the sample size for within groups was too small to make comparisons. Thus, we aggregate the data to include all Black respondents and Non-Hispanic White respondents, the focus of this chapter. The NASCC survey includes questions about intergenerational transfers, including in vivo transfers and inheritances that may shed light on the economic well-being of different racial and ethnic groups for the five metropolitan areas. In the past, other national surveys such as the Survey of Income and Program Participation (SIPP), the Panel Study of Income Dynamics (PSID), and the Survey of Consumer Finance (SCF) have focused on the net worth position of respondents (Killewald et al. 2017) but do not contain enough data to make inferences about specific metropolitan areas or to make comparisons between cities.

Researchers primarily gathered information about a respondent's specific assets, liabilities, financial resources, personal savings, and investment activity at the household level. Additional areas of inquiry included remittance behavior, i.e., sending assets or other resources abroad, or supporting relatives in the United States. The survey also asked for core demographic and socioeconomic characteristics, such as age, sex, educational attainment, household composition, nativity, and household income. Race and ethnic identity were self-identified by the household member family respondent best qualified to discuss household family financial matters. In our analysis we focus on differences between non-Hispanic Whites and Blacks in five metropolitan areas.

Differences in Financial Support for Non-Hispanic Whites Versus Blacks in Five Metropolitan Areas

To assess relationships between wealth and financial transfers for non-Hispanic Whites versus Blacks, we ran basic descriptive statistics of these groups for the entire five area NASCC sample. As seen in Figure 4.1, the average Black income in our sample ranges from a low in the Tulsa metropolitan

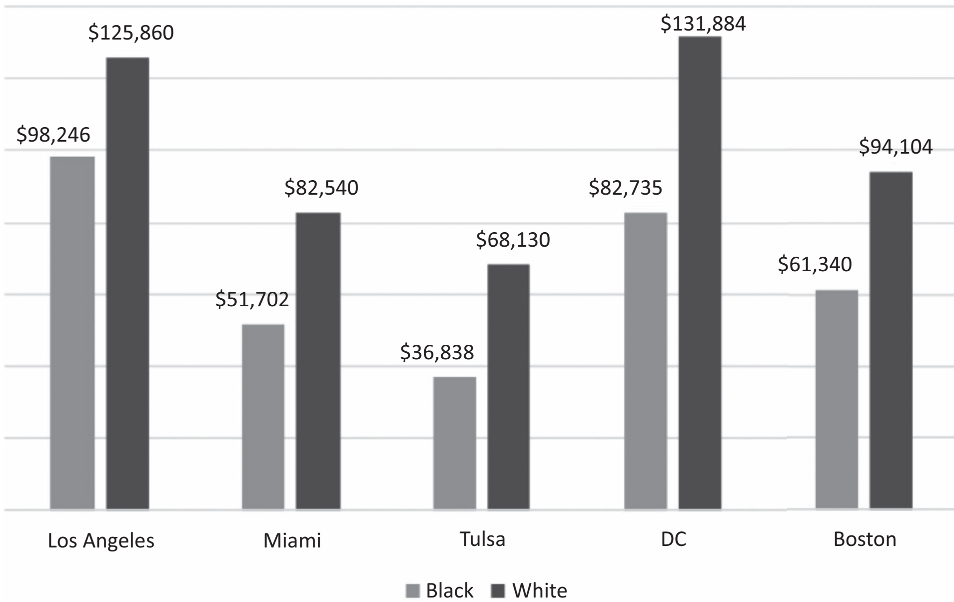

Figure 4.1 Average Income for Non-Hispanic Whites Versus Blacks for the Five Metropolitan Areas.
Source: authors.

area of $36,838 to a high in the Los Angeles metropolitan area of $98,246. Non-Hispanic White income ranges from a low of $68,130 in Tulsa to a high of $131,884 in the Washington, DC, metropolitan area. In all metropolitan areas there is a consistent, large income gap between Blacks and non-Hispanic Whites, with the smallest gap of $27,614 in Los Angeles. The largest gap in income between Blacks and non-Hispanic Whites in the five metropolitan areas is $49,149 in Washington, DC. Thus, as the literature predicts (Florida and Mellander 2016), there is considerable variation in average earnings in all regions and within every region where Blacks on average earn far less than non-Hispanic Whites. Similarly, homeownership rates vary by metropolitan area. Each metropolitan area has a substantial homeownership gap for non-Hispanic Whites versus Blacks, as shown in Figure 4.2. The highest non-Hispanic White homeownership rate is in the Tulsa metropolitan area, and the gap in the homeownership rate of 44 percentage points is nearly the largest of all the five metropolitan areas.

Thus, we find an overall relationship between race and financial transfers, indicating inequality of income and homeownership between non-Hispanic Whites and Blacks. We find that across the five metropolitan areas, 11.3 percent of non-Hispanic White homeowners received direct transfers from families or friends for down payment costs, compared to 3.6 percent of Black homeowners. We also find that non-Hispanic Whites were also more likely to receive financial support to pay for education than Blacks. While educational attainment varies significantly by race, when we limit the analysis to those who attended higher education institutions, we find significant differences for the two analyzed racial groups. Only 15 percent of Blacks that attended higher education institutions received large contributions from family members to pay for costs of education. In addition to those two specific uses of financial support, the NASCC survey inquired whether respondents received large financial gifts from relatives during their lifetime. We found that slightly more than 25 percent of non-Hispanic White households received such gifts versus 14 percent of Blacks and that these differences were significant at the 95 percent level.

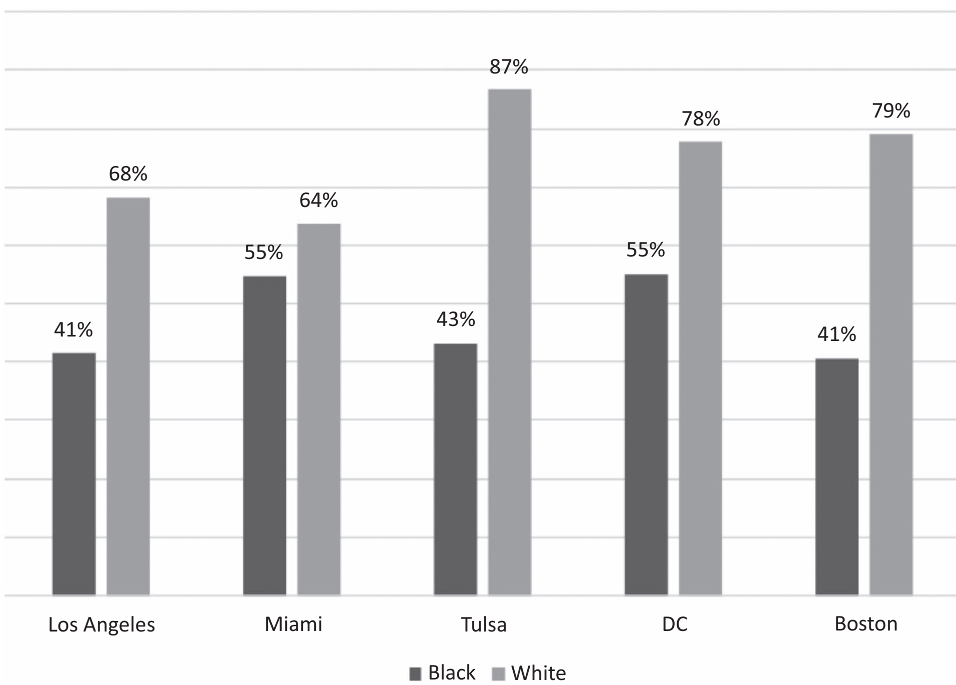

Figure 4.2 Homeownership Rates for Non-Hispanic Whites Versus Blacks for the Five Metropolitan Areas.
Source: authors.

Results from the NASCC survey are consistent with analyses using the PSID, showing that slightly more than 33 percent of non-Hispanic Whites received financial support for higher education compared to 14 percent of Blacks (Nam et al. 2015). Twelve percent of non-Hispanic Whites obtained financial help to buy a home, which includes help with the down payment, versus only 2 percent of Blacks (Nam et al. 2015). Importantly, those differences in transfers are driven by a difference in wealth positions at the outset. Decomposition analyses, which quantify the contribution of each group to the aggregate index, indicate that about 80 percent of the non-Hispanic White-Black gap in parental assistance for higher education and homeownership would disappear if non-Hispanic Whites and Blacks had parents with equivalent levels of income, wealth, and education.

Second, we sought to determine if there were differences in transfers across the five analyzed metropolitan areas. A rich feature of the NASCC survey is that it provides detailed information by race, ethnicity, and geography. Table 4.1 depicts the percentage of households that received a gift or a loan for down payment in the five metropolitan areas. The percentage of non-Hispanic White households that receive such help ranged from 9 percent in Miami to 16 percent in Los Angeles. Close to 5 percent of Blacks received such help across the metropolitan areas studied except for Los Angeles, where 10 percent of Blacks reported having received financial help to pay for down payment. These differences were significant in both Boston and Washington, DC.

The difference in the percentage of non-Hispanic White versus Black households who receive help to pay for education is substantial for the five metropolitan areas. In the Boston, Miami, Tulsa, and Washington, DC, metropolitan areas, the percentage of non-Hispanic Whites that received help to pay for more than 50 percent of their education costs was 30 percentage points higher than the percentage for Blacks (Table 4.2). For example, 40 percent of non-Hispanic Whites in Boston and Miami received financial help for education compared to only 8 percent of Blacks in Miami and

Table 4.1 Percentage of Households that Received Gifts or Loans for Down Payment.

	Boston	*Los Angeles*	*Miami*	*Tulsa*	*Washington, DC*
Non-Hispanic White	0.14	0.16	0.09	0.08	0.14
Black	0.00**	0.10	0.05	0.04	0.04***

Note: The difference in the percentage of non-Whites as compared with the percentage of White households is statistically significant at the *** 99% and ** 95% levels.

Source: NASCC survey, 2014, authors' calculations.

Table 4.2 Percentage of Respondents Whose Family Members Paid 50 Percent or More of Education Costs.

	Boston	*Los Angeles*	*Miami*	*Tulsa*	*Washington, DC*
Non-Hispanic White	0.42	0.37	0.43	0.34	0.50
Black	0.14***	0.26	0.08***	0.06***	0.13
Total	.23	.37	.25	.16	.38

Note: The difference in the percentage of Blacks as compared with the percentage of non-Hispanic White households is statistically significant at the *** 99% and ** 95% levels.

Source: NASCC survey, 2014, authors' calculations.

14 percent in Boston. Interestingly, the differences in Los Angeles do not appear to be as large or significant as in the other metro areas. In Boston, we find that Blacks did not receive loans or gifts for down payment. However, the incidence of gaps in transfers is consistent across the five metropolitan areas: Non-Hispanic Whites consistently transfer more wealth to their children than Blacks. Thus, despite differences in policies and economic trajectories of these five metropolitan areas, we find a similar pattern of differences in financial transfers from parents to children.

Conclusion

The history of housing finance, including the practice of redlining, and the present reality that non-Hispanic White households have more wealth to transfer to their offspring than Black households make race a critical factor in housing finance. Homeownership is often considered an individual achievement, a reflection of a person's ability to generate a steady income and accumulate savings. However, many forces influence an individual's path to homeownership. These include economic conditions, such as whether a region is experiencing economic growth or contraction, and macro-level, structural features, such as high levels of inequality. In this chapter, we focused on how a person's ability to finance a home can be influenced by parental wealth in both indirect and direct ways.

Our focus was on the relationship between homeownership and parental wealth, comparing non-Hispanic Whites and Blacks. We analyzed data about racial differences in indirect and direct transfers as well as information about how these transfers vary for five metropolitan areas. We found that, consistent with earlier research, non-Hispanic Whites receive significantly more direct assistance for homeownership than Black respondents (Hilber and Liu 2008). Nearly four times as many non-Hispanic White respondents reported that they received financial support for a down payment, compared to Blacks. We also found that a higher proportion of non-Hispanic White respondents reported getting indirect assistance in the form of financial aid from their parents for education. Even among those attending higher education institutions, we found significant differences along racial lines, with far greater proportions of non-Hispanic White households receiving financial help from their families. Offspring who receive financial assistance from their parents finish school with less debt and can therefore begin saving earlier for a down payment. While not every college graduate becomes a homeowner, parents who use their wealth to help with education are indirectly helping their children move along this path.

Economic and housing policies vary across regions in the United States, and these could have implications for the racial wealth gap and parental wealth as well. We found differences in wealth and wealth transfers by race for the five metropolitan areas. In all five metropolitan areas we surveyed, non-Hispanic Whites receive more assistance with down payments for homeownership and with higher education compared to Blacks. This finding suggests a pattern where non-Hispanic White parents are able to aid their children on the path to financing a home and subsequently generating wealth and equity. It was beyond the intended scope of this chapter to explain these inter-metropolitan differences with respect to receiving assistance. Future research on this subject is needed.

The question of whether the fundamental source of homeownership is wealth or whether homeownership is the origin of wealth is certainly difficult to answer, as homeownership is both a cause and an effect of wealth. In this chapter, rather than resolving this issue, we simply want to emphasize that the relationship between wealth and homeownership has a certain "chicken or egg" quality. Regardless of whether one starts with the chicken or the egg, the process that ensues results in racially uneven economic outcomes.

Scholars and policymakers have suggested a variety of policy responses, from mainstream to somewhat radical. The first one is to further reduce the down payment requirement imposed by FHA loans. To date, there are only a few rigorous evaluations on the loan performance for low down payment products. It is possible that even lower down payment requirements may result in higher defaults (Campbell and Cocco 2015). The second policy response is to increase public funding for programs that provide down payment loans. Massachusetts has one such program, called The One. Approved buyers make a down payment as little as 1.5 percent and receive a subsidized down payment loan (Smith 1999). The third policy response is to provide down payment grants, for example, the loans provided by the U.S. Department of Housing and Urban Development to qualifying buyers as part of the now-ended HOPE VI program (Graves and Curley 2013).

Additional measures would be more politically difficult. Some have proposed down payment savings products, which facilitate savings for a down payment. Others have introduced Baby Bonds, a publicly funded program that provides low-income children with a sizable trust, about $20,000 at birth (Hamilton and Darity 2010). The United Kingdom instituted a much more modest program until 2011, The Child Trust Fund, which granted children around $400 at birth (Butrica 2015). It is unlikely that such a small grant would have much of an impact if applied in the U.S. Finally, some scholars and activists have proposed a publicly funded reparations program to people of African-Americandescent as the only just solution to racial wealth inequality (Coates 2014; Feagin 2004), although the chances of this strategy being implemented would require a level of political will currently absent in the U.S.

Notes

1 The NASCC project is funded by the Ford Foundation (for any data besides the Boston data) and the Federal Reserve Bank of Boston (for the Boston data). William Darity (Duke University) and Darrick Hamilton (The New School) serve as primary investigators. The NASCC-Boston project manager was Ana Patricia Muñoz. The NASCC survey was administered by the University of Virginia's Center for Survey Research from January to March 2014. Surveyors collected 2,746 complete surveys across the five metropolitan areas.

2 For example, the survey asked the country of origin of Black, Asian, and Latino respondents. More specifically, the NASCC dataset includes data for respondents of Korean, Vietnamese, Chinese, Filipino, Puerto Rican, Dominican, Mexican, Cuban, and African descent. While detailed questions were included on ethnicity, the sample sizes were too small to draw statistical inferences.

References

Addo, Fenaba R., Jason N. Houle, and Daniel Simon. 2016. "Young, Black, and (Still) in the Red: Parental Wealth, Race, and Student Loan Debt." *Race and Social Problems*, 8(1): 64–76.

Anacker, Katrin B. 2010. "Still Paying the Race Tax? Analyzing Property Values in Homogeneous and Mixed-Race Suburbs." *Journal of Urban Affairs*, 32(1): 55–77.

Anacker, Katrin B., and James H. Carr. 2011. "Analyzing Determinants of Foreclosure among High-Income African-American and Hispanic Borrowers in the Washington, DC Metropolitan Area." *International Journal of Housing Policy*, 11(2): 195–220.

Anacker, Katrin B., James H. Carr, and Archana Pradhan. 2012. "Analyzing Foreclosures among High-Income Black/African American and Hispanic/Latino borrowers in Prince George's County, Maryland." *Housing and Society*, 39(1): 1–28.

Avery, Robert B., and Michael S. Rendall. 2002. "Lifetime Inheritances of Three Generations of Whites and Blacks." *American Journal of Sociology*, 107(5): 1300–1346.

Bayer, Patrick, Fernando Ferreira, and Stephen L. Ross. 2017. "The Vulnerability of Minority Homeowners in the Housing Boom and Bust: Corrigendum." *American Economic Journal*, 9(1): 344–345.

Bhutta, Neil, and D. Ringo. 2016. "Residential Mortgage Lending from 2004 to 2015: Evidence from the Home Mortgage Disclosure Act Data." *Federal Reserve Bulletin*, 102(6): 1–26.

Blau, Francine D., and John W. Graham. 1990. "Black-White Differences in Wealth and Asset Composition." *The Quarterly Journal of Economics*, 105(2): 321–339.

Bond, Shaun A., and Michael D. Erikson. 2016. *The Role of Parents on the Home Ownership Experience of Their Children: Evidence from the Health and Retirement Study*. Cincinnati, OH: University of Cincinnati Lindner College of Business.

Brueckner, Jan K. 1986. "The Downpayment Constraint and Housing Tenure Choice: A Simplified Exposition." *Regional Science and Urban Economics*, 16(4): 519–525.

Butrica, Barbara A. 2015. *A Review of Children's Savings Accounts*. Washington, DC: Urban Institute.

Campbell, John Y., and Joao F. Cocco. 2015. "A Model of Mortgage Default." *The Journal of Finance*, 70(4): 1495–1554.

Case, Karl E., John M. Quigley, and Robert J. Shiller. 2005. "Comparing Wealth Effects: The Stock Market versus the Housing Market." *Advances in Macroeconomics*, 5(1), n.p.

Charles, Kerwin Kofi, and Erik Hurst. 2002. "The Transition to Home Ownership and the Black-White Wealth Gap." *Review of Economics and Statistics*, 84(2): 281–297.

Charles, Kerwin Kofi, and Erik Hurst. 2003. "The Correlation of Wealth across Generations." *Journal of Political Economy*, 111(6): 1155–1182.

Charron-Chénier, Raphaël, Joshua J. Fink, and Lisa A. Keister. 2017. "Race and Consumption: Black and White Disparities in Household Spending." *Sociology of Race and Ethnicity*, 3(1): 50–67.

Chetty, Raj, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez. 2014. "Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States." *The Quarterly Journal of Economics*, 129(4): 1553–1623.

Chetty, Raj, László Sándor, and Adam Szeidl. 2017. "The Effect of Housing on Portfolio Choice." *The Journal of Finance*, 72(3): 1171–1212.

Chiteji, Ngina S., and Darrick Hamilton. 2002. "Family Connections and the Black-White Wealth Gap among Middle-Class Families." *The Review of Black Political Economy*, 30(1): 9–28.

Chiteji, Ngina S., and Darrick Hamilton. 2010. "Wealth in the Extended Family: An American Dilemma." *Du Bois Review: Social Science Research on Race*, 7(2): 357–379.

Choudhury, Askar H., and Nathan S. Hartman. 2015. "Regional Differential Wealth Effect on Home Value: A Cross-Sectional Analysis." *Journal of Economics and Economic Education Research*, 16(1): 273–290.

Coates, Ta-Nehisi. 2014. "The Case for Reparations." *The Atlantic*, June. n.p.

Collins, William J., and Robert A. Margo. 2011. "Race and Home Ownership from the End of the Civil War to the Present." *The American Economic Review*, 101(3): 355–359.

Díaz, Antonia, and María José Luengo-Prado. 2008. "On the User Cost and Homeownership." *Review of Economic Dynamics*, 11(3): 584–613.

Dietz, Robert, and Donald Haurin. 2003. "The Social and Private Micro-Level Consequences of Homeownership." *Journal of Urban Economics*, 54(3): 401–450.

Duca, John V., and Stuart S. Rosenthal. 1994. "Do Mortgage Rates Vary Based on Household Default Characteristics? Evidence on Rate Sorting and Credit Rationing." *The Journal of Real Estate Finance and Economics*, 8(2): 99–113.

Ellen, Ingrid Gould, and Samuel Dastrup. 2012. *Housing and the Great Recession*. Stanford, CA: Stanford Center on Poverty and Inequality.

Engelhardt, Gary V. 1996. "Consumption, Down Payments, and Liquidity Constraints." *Journal of Money, Credit and Banking*, 28(2): 255–271.

Engelhardt, Gary V., and Christopher J. Mayer.1994. "Gifts for Home Purchase and Housing Market Behavior." *New England Economic Review*, May, 47–53.

Erikson, Robert S., Gerald C. Wright, and John P. McIver. 1993. *Statehouse Democracy: Public Opinion and Policy in the American States*. Palo Alto, CA: Cambridge University Press.

Feagin, Joe R. 2004. "Documenting the Costs of Slavery, Segregation, and Contemporary Racism: Why Reparations are in Order for African Americans." *Harvard Black Letter Law Journal*, 20: 49–81.

Feld, Scott L. 1984. "The Structured Use of Personal Associates." *Social Forces*, 62(3): 640–652.

Flippen, Chenoa A. 2001. "Racial and Ethnic Inequality in Homeownership and Housing Equity." *The Sociological Quarterly*, 42(2): 121–149.

Florida, Richard, and Charlotta Mellander. 2016. "The Geography of Inequality: Difference and Determinants of Wage and Income Inequality across US Metros." *Regional Studies*, 50(1): 79–92.

Fryer, Roland, Jörg Spenkuch, and Devah Pager. 2011. *Racial Disparities in Job Finding and Offered Wages*. NBER Working Paper 17462. Cambridge, MA: National Bureau of Economic Research.

Gabriel, Stuart A., and Stuart S. Rosenthal. 2005. "Homeownership in the 1980s and 1990s: Aggregate Trends and Racial Gaps." *Journal of Urban Economics*, 57(1): 101–127.

Galster, George, and Patrick Sharkey. 2017. "Spatial Foundations of Inequality: A Conceptual Model and Empirical Overview." *Russell Sage Foundation Journal of the Social Sciences*, 3(2): 1–33.

Gordon, Adam. 2005. "The Creation of Homeownership: How New Deal Changes in Banking Regulation Simultaneously Made Homeownership Accessible to Whites and Out of Reach for Blacks." *The Yale Law Journal*, 1(5): 186–226.

Graves, Erin M., and Alexandra Curley. 2013. "Homeownership among Low-Income Families." In *Urban Ills: Twenty-First-Century Complexities of Urban Living in Global Contexts*, edited by Carol Camp Yeakey, Vetta L. Sanders Thompson, and Anjanette Wells, 101–136. Lanham, MD: Lexington Books.

Green, Richard K., and Michelle J. White. 1997. "Measuring the Benefits of Homeowning: Effects on Children." *Journal of Urban Economics*, 41(3): 441–461.

Green, Rodney D. 1995. "Review of *Black Wealth, White Wealth: A New Perspective on Racial Inequality* by Melvin L. Oliver and Thomas M. Shapiro." *The Journal of Negro Education*, 4(4): 477–479.

Greenspan, Alan, and James E. Kennedy. 2005. *Estimates of Home Mortgage Originations, Repayments, and Debt on One-to-Four-Family Residences*. Washington, DC: Federal Reserve Board.

Grinstein-Weiss, Michal, Clinton Key, and Shannon Carrillo. 2015. "Homeownership, the Great Recession, and Wealth: Evidence from the Survey of Consumer Finances." *Housing Policy Debate*, 25(3): 419–445.

Gyourko, Joseph, and Peter Linneman. 1996. "Analysis of the Changing Influences on Traditional Households' Ownership Patterns." *Journal of Urban Economics*, 39(3): 318–341.

Hamilton, Darrick, and William Darity. 2010. "Can 'Baby Bonds' Eliminate the Racial Wealth Gap in Putative Post-Racial America?" *The Review of Black Political Economy*, 37(3–4): 207–216.

Haurin, Donald R., Patric H. Hendershott, and Susan M. Wachter. 1996. *Borrowing Constraints and the Tenure Choice of Young Households*. NBER Working Paper 5360. Cambridge, MA: National Bureau of Economic Research.

Haurin, Donald R., and Stuart S. Rosenthal. 2007. "The Influence of Household Formation on Homeownership Rates across Time and Race." *Real Estate Economics*, 35(4): 411–450.

Herbert, Christopher E., Daniel T. McCue, and Rocio Sanchez-Moyano. 2013. "Is Homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households? (Was It Ever?)." *Joint Center For Housing Studies Working Paper*. Cambridge, MA: Harvard University Press.

Hernandez, Jesus. 2009. "Redlining Revisited: Mortgage Lending Patterns in Sacramento 1930–2004." *International Journal of Urban and Regional Research*, 33(2): 291–313.

Hero, Rodney E., and Caroline J. Tolbert. 1996. "A Racial/Ethnic Diversity Interpretation of Politics and Policy in the States of the US." *American Journal of Political Science*, 851–871.

Hilber, Christian A.L., and Yingchun Liu. 2008. "Explaining the Black—White Homeownership Gap: The Role of Own Wealth, Parental Externalities and Locational Preferences." *Journal of Housing Economics*, 17(2): 152–174.

Hwang, Jackelyn. 2015. *Racialized Recovery: Post-Foreclosure Pathways in Distressed Neighborhoods in Boston*. Cambridge, MA: Joint Center for Housing Studies, Harvard University.

Katznelson, Ira. 2013. *Fear itself: The New Deal and the Origins of Our Time*. New York: W.W. Norton & Company.

Keister, Lisa A. 2000. "Race and Wealth Inequality: The Impact of Racial Differences in Asset Ownership on the Distribution of Household Wealth." *Social Science Research*, 29(4): 477–502.

Keister, Lisa A. 2004. "Race, Family Structure, and Wealth: The Effect of Childhood Family on Adult Asset Ownership." *Sociological Perspectives*, 47(2): 161–187.

Killewald, Alexandra, Fabian T. Pfeffer, and Jared N. Schachner. 2017. "Wealth Inequality and Accumulation." *Annual Review of Sociology*, 43: 379–404.

Kline, Patrick, and Enrico Moretti. 2014. "People, Places, and Public Policy: Some Simple Welfare Economics of Local Economic Development Programs." *Annual Review of Economics*, 6(1): 629–662.

Kochhar, Rakesh, and Richard Fry. 2014. *Wealth Inequality has Widened along Racial, Ethnic Lines Since End of Great Recession*. Washington, DC: Pew Research Center.

Krivo, Lauren J., and Robert L. Kaufman. 2004. "Housing and Wealth Inequality: Racial-Ethnic Differences in Home Equity in the United States." *Demography*, 41(3): 585–605.

Kuebler, Meghan, and Jacob S. Rugh. 2013. "New Evidence on Racial and Ethnic Disparities in Homeownership in the United States From 2001 to 2010." *Social Science Research*, 42(5): 1357–1374.

Lee, Chyi Lin, and Richard G. Reed. 2014. "The Relationship between Housing Market Intervention for First-Time Buyers and House Price Volatility." *Housing Studies*, 29(8): 1073–1095.

Leigh, Wilhelmina A., and Danielle Huff. 2007. *African Americans and Homeownership: The Subprime Lending Experience, 1995 to 2007*. Washington, DC: The Joint Center for Political and Economic Studies.

Lovenheim, Michael F. 2011. "The Effect of Liquid Housing Wealth on College Enrollment." *Journal of Labor Economics*, 29(4): 741–771.

Mandel, Hadas, and Moshe Semyonov. 2016. "Going Back in Time? Gender Differences in Trends and Sources of the Racial Pay Gap, 1970 to 2010." *American Sociological Review*, 81(5): 1039–1068.

Massey, Douglas S. 2016. "Residential Segregation is the Linchpin of Racial Stratification." *City & Community*, 15(1): 4–7.

McKee, Kim. 2012. "Young People, Homeownership and Future Welfare." *Housing Studies*, 27(6): 853–862.

McKernan, Signe-Mary, Caroline Ratcliffe, Margaret Simms, and Sisi Zhang. 2014. "Do Racial Disparities in Private Transfers Help Explain the Racial Wealth Gap? New Evidence from Longitudinal Data." *Demography*, 51(3): 949–974.

Menchik, Paul L., and Nancy Ammon Jianakoplos. 1997. "Black-White Wealth Inequality: Is Inheritance the Reason?" *Economic Inquiry*, 35(2): 428–442.

Munnell, Alicia H., Geoffrey MB Tootell, Lynn E. Browne, and James McEneaney. 1996. "Mortgage Lending in Boston: Interpreting HMDA Data." *The American Economic Review*, 86(1): 25–53.

Myers, Dowell, Gary Painter, and Julie Zissimopoulos. 2016. *The Role of Parental Financial Assistance in the Transition to Homeownership by Young Adults*. Washington, DC: Fannie Mae.

Nam, Yunju, Darrick Hamilton, William Darity, and Anne E. Price. 2015. *Bootstraps are for Black Kids: Race, Wealth, and the Impact of Intergenerational Transfers on Adult Outcomes*. Oakland, CA: Insight Center for Community Economic Development.

O'Brien, Rourke L. 2012. "Depleting Capital? Race, Wealth and Informal Financial Assistance." *Social Forces*, 91(2): 375–396.

Oliver, Melvin L., and Thomas M. Shapiro. 2006. *Black Wealth, White Wealth: A New Perspective on Racial Inequality*. New York: Taylor & Francis.

Ortalo-Magne, Francois, and Sven Rady. 1999. "Boom in, Bust out: Young Households and the Housing Price Cycle." *European Economic Review*, 43(4): 755–766.

Pager, Devah, and Hana Shepherd. 2008. "The Sociology of Discrimination: Racial Discrimination in Employment, Housing, Credit, and Consumer Markets." *Annual Review of Sociology*, 34: 181–209.

Pfeffer, Fabian T., Sheldon Danziger, and Robert F. Schoeni. 2013. "Wealth Disparities Before and After the Great Recession." *The Annals of the American Academy of Political and Social Science*, 650(1): 98–123.

Piketty, Thomas. 2017. *Capital in the Twenty-First Century*. Cambridge, MA: Harvard University Press.

Quercia, Roberto, and Susan Wachter. 1996. "Homeownership Counseling Performance: How Can It Be Measured?" *Housing Policy Debate*, 7(1): 175–187.

Ross, Stephen L., and Geoffrey MB Tootell. 2004. "Redlining, the Community Reinvestment Act, and Private Mortgage Insurance." *Journal of Urban Economics*, 55(2): 278–297.

Rugh, Jacob S., and Douglas S. Massey. 2010. "Racial Segregation and the American Foreclosure Crisis." *American Sociological Review*, 75(5): 629–651.

Scholz Karl John, and Kara Levine. 2004. "U.S. Black-White Wealth Inequality." In *Social Inequality*, edited by Kathryn M. Neckerman, 895–929. New York: Russell Sage.

Seah, Kiat Ying, Eric Fesselmeyer, and Kien Le. 2017. "Estimating and Decomposing Changes in the White—Black Homeownership Gap from 2005 to 2011." *Urban Studies*, 54(1): 119–136.

Shapiro, Thomas M. 2004. *The Hidden Cost of Being African American: How Wealth Perpetuates Inequality*. New York: Oxford University Press.

Shapiro, Thomas, Tatjana Meschede, and Sam Osoro. 2013. *The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide*. Waltham, MA: Institute on Assets and Social Policy.

Sharp, Gregory, and Matthew Hall. 2014. "Emerging Forms of Racial Inequality in Homeownership Exit, 1968–2009." *Social Problems*, 61(3): 427–447.

Shlay, Anne B. 2006. "Low-Income Homeownership: American Dream or Delusion?" *Urban Studies*, 43(3): 511–531.

Smith, David A. 1999. "Mark-To-Market: A Fundamental Shift in Affordable Housing Policy." *Housing Policy Debate*, 10(1): 143–182.

Sykes, Bryan L., and Michelle Maroto. 2016. "A Wealth of Inequalities: Mass Incarceration, Employment, and Racial Disparities in US Household Wealth, 1996 to 2011." *Russell Sage Foundation Journal of the Social Sciences*, 2(6): 129–152.

Thomas, Hannah, Tatjana Meschede, Alexis Mann, Janet Boguslaw, and Thomas Shapiro. 2014. *The Web of Wealth: Resiliency and Opportunity or Driver of Inequality?* Waltham, MA: Institute on Assets and Social Policy.

Thompson, Jeffrey P., and Gustavo A. Suarez. 2015. "Exploring the Racial Wealth Gap Using the Survey of Consumer Finances." *Finance and Economics Discussion Series 2015–76*. Washington: Board of Governors of the Federal Reserve System.

Traub, Amy, Laura Sullivan, Tatjana Meschede, and Tom Shapiro. 2017. *The Asset Value of Whiteness: Understanding the Racial Wealth Gap*. New York: Demos.

U.S. Census Bureau. 2019. (February 28. 2019). *Quarterly Residential Vacancies and Homeownership, Fourth Quarter 2018* (Report No. CB19-10). Retrieved from https://www.census.gov/housing/hvs/files/currenthvspress.pdf

Vale, Lawrence J. 2007. The Ideological Origins of Affordable Homeownership Efforts. In *Chasing the American Dream: New Perspectives on Affordable Homeownership*, edited by William L. Rohe and Harry L. Watson, 15–40. Ithaca, NY: Cornell University Press.

Wolff, Edward N. 1998. "Recent Trends in the Size Distribution of Household Wealth." *The Journal of Economic Perspectives*, 12(3): 131–150.

Wolff, Edward N. 2014. *Household Wealth Trends in the United States, 1962–2013: What Happened over the Great Recession?* NBER Working Paper 20733. Cambridge, MA: National Bureau of Economic Research.

Yinger, John. 1998. "Housing Discrimination is Still Worth Worrying About." *Housing Policy Debate*, 9(4): 893–927.

Zhao, Bo, Jan Andrich, and John Yinger. 2006. "Why Do Real Estate Brokers Continue to Discriminate? Evidence from the 2000 Housing Discrimination Study." *Journal of Urban Economics*, 59(3): 394–419.