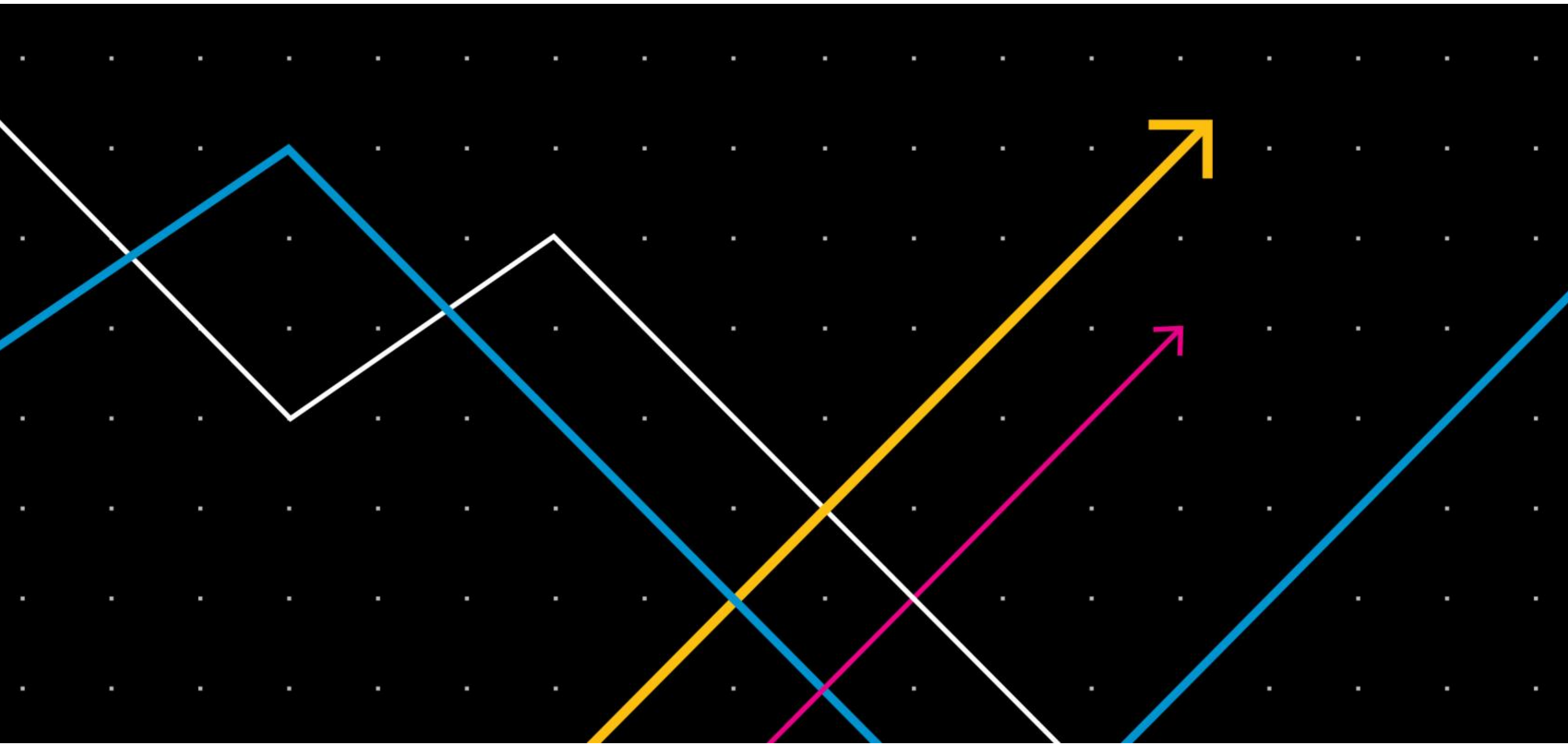

RESEARCH REPORT

Using Data to Design Special Purpose Credit Programs

A Broad Market Analysis for Arizona, California, and Nevada

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ABOUT THE URBAN INSTITUTE

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This report complements a series of studies commissioned by the Federal Home Loan Bank of San Francisco—the Racial Equity Accelerator for Homeownership—that examine how innovations within the mortgage finance system can help narrow racial homeownership gaps. It explores and presents evidence of racial inequity in access to mortgage credit in the three states of the bank's region—Arizona, California, and Nevada—providing a resource for financial institutions serving these markets to implement special purpose credit programs that address identified barriers for households of color to attain homeownership.

1. Introduction

Homeownership is the cornerstone of financial stability and generational wealth for many households. But the mortgage lending system has historically not served all Americans equally, as explicit discrimination in lending has affected households of color for years. This has created a significant need for specialized assistance to ensure equal credit access, leveling the playing field for all American households.

The Equal Credit Opportunity Act (ECOA) of 1974, which prohibits discrimination in credit transactions, includes language permitting private lenders to establish special purpose credit programs (SPCPs) to extend credit products to consumers who would not normally qualify under standard terms. SPCPs are instrumental in addressing the effects of historical discrimination and equalizing the credit playing field.

Lending institutions that create SPCPs are required, under the ECOA, to design and administer their programs according to a "written plan" supported by broad analysis and robust data. This ensures the programs are tailored to the specific needs they aim to address. In this report, I conduct an example market analysis to demonstrate the types of data that could be included in a written plan for an SPCP, using down payment assistance as the example credit product. I focus on a tristate area—Arizona, California, and Nevada—and explore the potential impact and design of such a program.

In section 2, I furnish background information about SPCPs. In section 3, I use public data to demonstrate the severity of gaps in homeownership and lending. I then further support this evidence using mortgage application data, revealing higher denial rates for mortgage applicants of color when applying for home purchase loans.

In section 4, I present evidence highlighting racial wealth disparities and intergenerational gaps in homeownership. I delve into disparities in rental cost burden and the availability of down payment resources, which collectively hinder homeownership for many renters of color. Renters often cite the lack of assets for down payments and closing costs as a primary barrier.

In section 5, I demonstrate how data inform the SPCP establishment of eligibility criteria and program targeting. I explore a person-based approach and a place-based approach for defining eligibility. For each method, I provide metrics for different indicators, seek input from the targeted groups, and discuss potential trade-offs associated with each approach.

About the Racial Equity Accelerator for Homeownership

Homeownership is the primary way many US households build wealth. But because of historical racism and its ongoing legacies, the path to homeownership for Black households is rife with structural barriers, and, even once obtained, homeownership's benefits are not equitably distributed. To address some of the persistent racial disparities in homeownership and wealth, the Federal Home Loan Bank of San Francisco has partnered with the Urban Institute to launch a research and product development initiative called the Racial Equity Accelerator for Homeownership. The accelerator hosts several research workstreams investigating methods for facilitating and sustaining Black homeownership:

- incorporating alternative data into mortgage underwriting
- mitigating the impact of student loan debt on Black homeownership
- using artificial intelligence and advancing technologies that can overcome mortgage lending biases
- innovating loss mitigation strategies to help households sustain homeownership during times of stress (the focus of this report)

Although the accelerator focuses on Black homeownership, many of the barriers Black households face apply to other households of color, and the solutions to reduce the Black-white homeownership gap can help other households who struggle to become homeowners and build wealth.

Addressing the Black-white homeownership gap is essential to achieving racial equity and ensuring all households have access to homeownership. Historically, the mortgage finance system purposefully excluded Black households from homeownership through racist practices such as redlining, and the legacies of these practices persist. To undo the effects of explicit historical racism in housing, an equally explicit commitment must be made to address racial homeownership disparities. Without such a commitment, homeownership and wealth gaps will widen.

Rooting out systemic racism is a complicated process that will require sustained collaboration between many actors in the housing finance system, and the policy and practice changes proposed in this report may improve Black homeownership only at the margins. But our research in this area is promising, and if the housing finance system can rally the necessary political will, we may be able to make tangible improvements for hundreds of thousands of Black households.

2. SPCP Background

The legacy of financial discrimination runs deep, evident in persistent and wide homeownership and wealth gaps between white households and households of color.[1] These gaps are perpetuated in part by the lingering effects of historical discrimination that continue to disadvantage households of color in areas critical to buying a home.[2] For example, racial disparities in income and wealth negatively affect mortgage eligibility for applicants of color by putting upward pressure on debt-to-income and loan-to-value ratios. These and other disparities persist in different communities (Fannie Mae 2023) and leave them in worse positions to receive credit.

In response to fair housing legislation in the late 1960s, one of the paths carved out to remedy disparities in credit access, and by extension homeownership, were SPCPs, which are designed to level the playing field in credit access for historically disadvantaged groups. Authorized by Regulation B of the ECOA, SPCPs aim to lower barriers to financing for groups that otherwise would not be approved or would be approved on worse terms because of disparate impacts or adverse treatment.

Private institutions have become more interested in offering SPCPs in recent years, in part driven by the release of additional legal clarity from the Consumer Financial Protection Bureau (CFPB). The CFPB issued an advisory opinion in January 2021, providing guidance for for-profit organizations to navigate the requirements and expectations of executing an SPCP, specifically noting that SPCPs are permitted by law.[3] Subsequently, the US Department of Housing and Urban Development and the Office of the Comptroller of the Currency issued guidance regarding SPCPs in the housing sector.

Regulation B of the ECOA mandates that all SPCPs are established and administered in accordance with a "written plan" that defines the class of persons to whom the program intends to extend credit. In the 2021 CFPB advisory opinion, the bureau clarified the components required in such a plan, as well as research and data necessary to justify the need for an SPCP.

At a high level, a written plan should include the following information:

- the class of persons the program is designed to benefit
- the procedures and standards for extending credit pursuant to the program
- either (1) the time period during which the program will last or (2) when the program will be reevaluated to determine whether there is a continuing need for it
- a description of the analysis the organization conducted to determine the need for the program

Additionally, the CFPB's advisory opinion stresses the importance of conducting a "broad analysis" to substantiate the need for the program and its ongoing relevance. This analysis should present a comprehensive case for serving the targeted group and should highlight the barriers the group encounters in accessing credit. The opinion stresses that all assertions should be firmly grounded in data.

This broad analysis can draw from a large variety of data sources, including publicly available external datasets such as the Census Bureau's American Community Survey and the Home Mortgage Disclosure Act dataset. But the advisory opinion also advised that lenders add analysis from internal data from the institution's own records. My report does not provide examples of internal data analysis.

Administers of SPCPs need to establish and articulate the features and the criteria for their programs to be tailored to the disadvantaged population or class of people made evident by the broad analysis. A complete written plan will identify the population in need of special credit and meticulously document the barriers they face in credit access and how their program will help remedy those barriers, all substantiated by robust data. The Urban Institute has released a publicly available SPCP data toolkit that provides aggregate evidence supporting the creation of written plans and the development of SPCP eligibility criteria.[4] Most data in this report leverage resources from that toolkit to provide a detailed market analysis.

Additional SPCP Requirements

The analysis illustrated in this report is not all that is required to implement an SPCP and does not constitute legal advice or recommendations about how to operate an actual program. This report demonstrates the importance of data to the success of SPCPs and how data can be synthesized into a written plan. For a more thorough guide about what actions are required during SPCP development and implementation, I recommend spcptoolkit.com, which provides comprehensive resources for all aspects of building an SPCP, including legal and regulatory requirements.

There are several portions of a written plan I do not address in this report, including the identification of a "nexus" between the SPCP product and a lender's practices. Lenders are encouraged to use their own data in the broad analysis portion of the written plan. The CFPB makes clear that "the fact that a for-profit organization identifies a need for a special purpose credit program based on an analysis of its own data does not, by itself, create an inference or presumption that the organization has engaged in unlawful credit discrimination."[5]

Using an organization's own data is not explicitly required for the broad analysis, but the CFPB states the need for a "nexus" between the identified need and the lender's standards, which would require some evaluation of proprietary data. The CFPB further articulates, "[t]he for-profit organization must be able to show a connection between the research or data informing its analysis and the fact that, under the organization's customary standards of creditworthiness, a class of persons probably would not receive credit or would receive it on less favorable terms."[6]

Additionally, lenders must include a plan to track and evaluate whether a program is fulfilling its goal. Lenders are required to articulate whether they plan to sunset the program on a specific date or describe a plan for tracking how the program is performing. A written plan should include information about the time frame for the products and how they will monitor and measure the program. Although this report does not illustrate an example of this requirement, the data in the target market analysis portion of the report (section 5) can be helpful for evaluating defining demographics of the market as a benchmark for the distribution of service by the SPCP.

3. Homeownership and Mortgage Application Disparities

This section highlights statistics from publicly available sources to illustrate the presence of racial housing and mortgage lending disparities in Arizona, California, and Nevada. I offer insights about the prevalence of these disparities and emphasize race-based disparities in homeownership and mortgage applications that warrant the need for SPCPs and, further, how this evidence can be used to create targeted criteria when designing an SPCP.

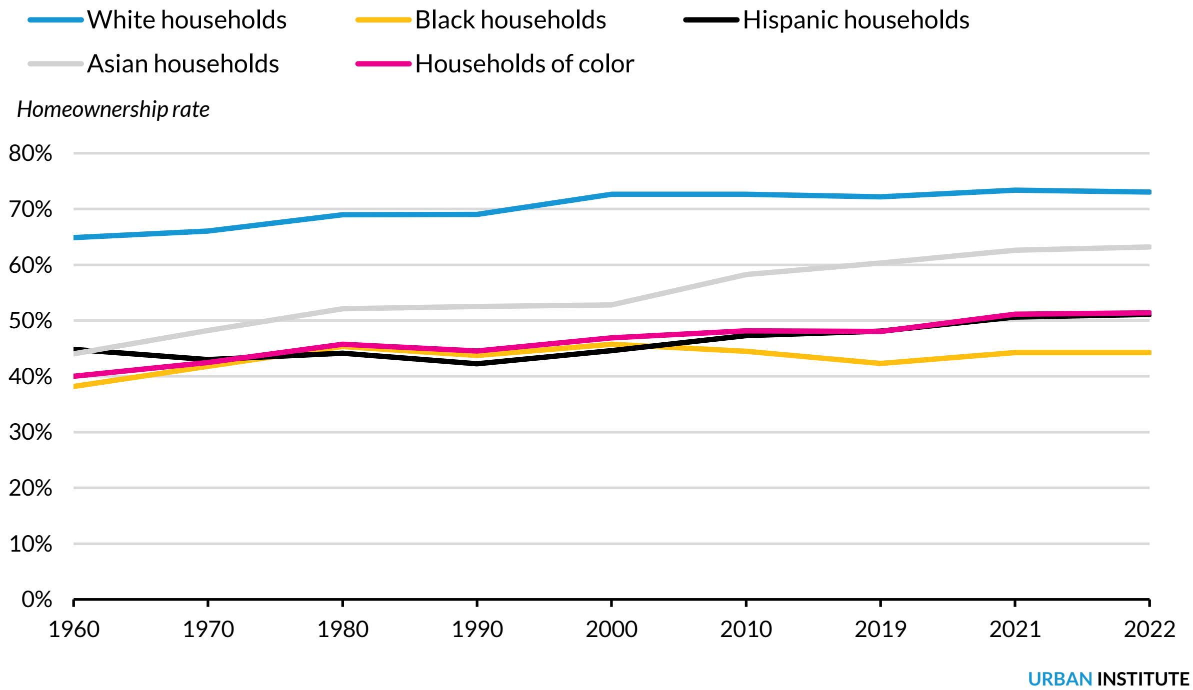
The State of Racial Homeownership Gaps

Homeownership has served as the primary and most consistent way to build wealth available to American households (Goodman and Mayer 2018). Owning a home offers greater housing stability compared with renting and is salient in passing wealth between generations. The introduction of the 30-year fixed-rate mortgage and mortgage securitization markets in the 20th century made purchasing a home more accessible for households across the economic spectrum. But access to mortgage credit was largely a benefit exclusive to white households, with an array of discriminatory policies and practices excluding marginalized groups from achieving homeownership (Rothstein 2017).

Nationwide, significant homeownership rate disparities persist among different racial and ethnic groups (figure 1), with households of color facing substantial hurdles compared with white households in both achieving and maintaining homeownership. As of 2022, the Black-white homeownership rate gap is wider than it was in 1960, when the Fair Housing Act had not yet been passed and housing discrimination was still legal. Housing discrimination during the first half of the 20th century played a significant role in creating and sustaining these gaps (McCargo and Choi 2020). Institutions like the federal Home Owners' Loan Corporation, the precursor to the Federal Housing Administration, systematically denied mortgage lending from communities of color through the practice of redlining (Rothstein 2017). Additionally, racially restrictive covenants in the early 20th century prohibited many households of color from purchasing or owning homes in certain communities, often affluent and white communities.[7]

FIGURE 1

National Homeownership Rates, in Select Years, by Race or Ethnicity



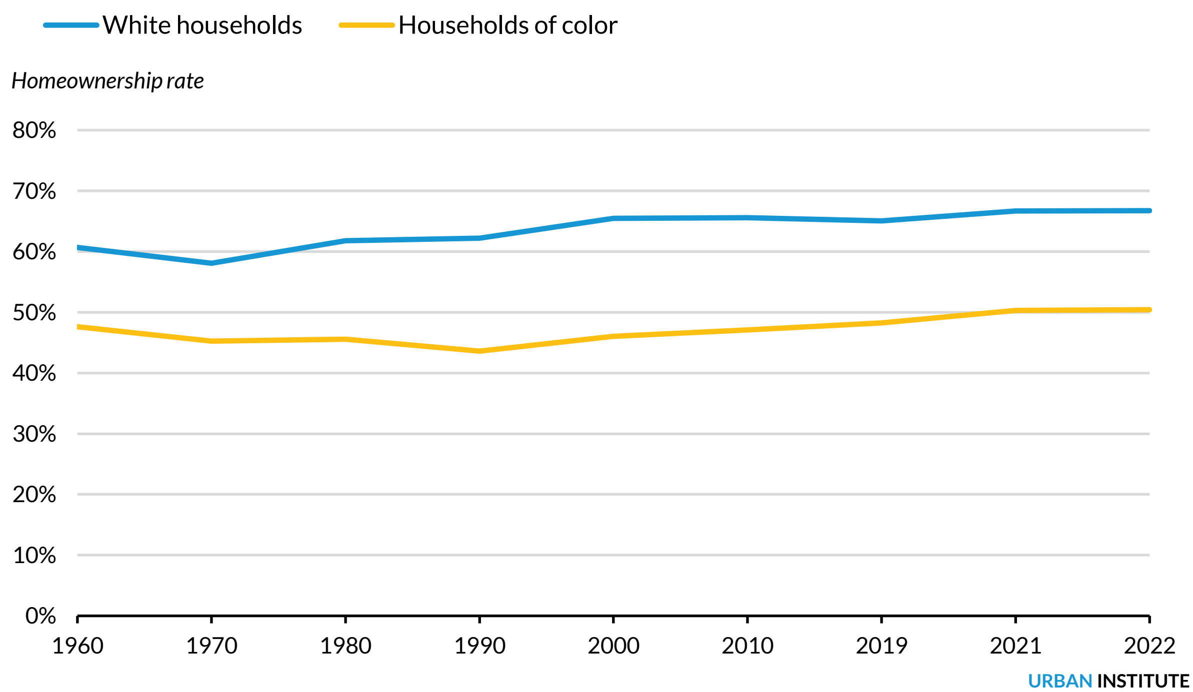
Source: 1960–90 Decennial Census and 2000–22 American Community Survey data.
Notes: I calculate homeownership rates by dividing the total number of homeowners by the total number of households. Households include the total number of both homeowners and renters. I exclude 2020 results because of undersampling.

Figure 2 compares homeownership rates for white households and households of color in Arizona, California, and Nevada, dating back to 1960. In 1960, the white homeownership rate was 61 percent, whereas households of color had a homeownership rate of 48 percent, a 13 percentage-point difference. By 2022, the homeownership rate for white households had increased 6 percentage points to 67 percent, while the average homeownership rate for households of color had increased only by 2 percentage points to 50 percent. This indicates a widening of the homeownership gap to 16 percentage points, 3 percentage points higher than the gap in 1960 but smaller than the national disparity highlighted in figure 1.

FIGURE 2

Homeownership Rates, in Select Years, in the Three-State Area

White households compared with households of color

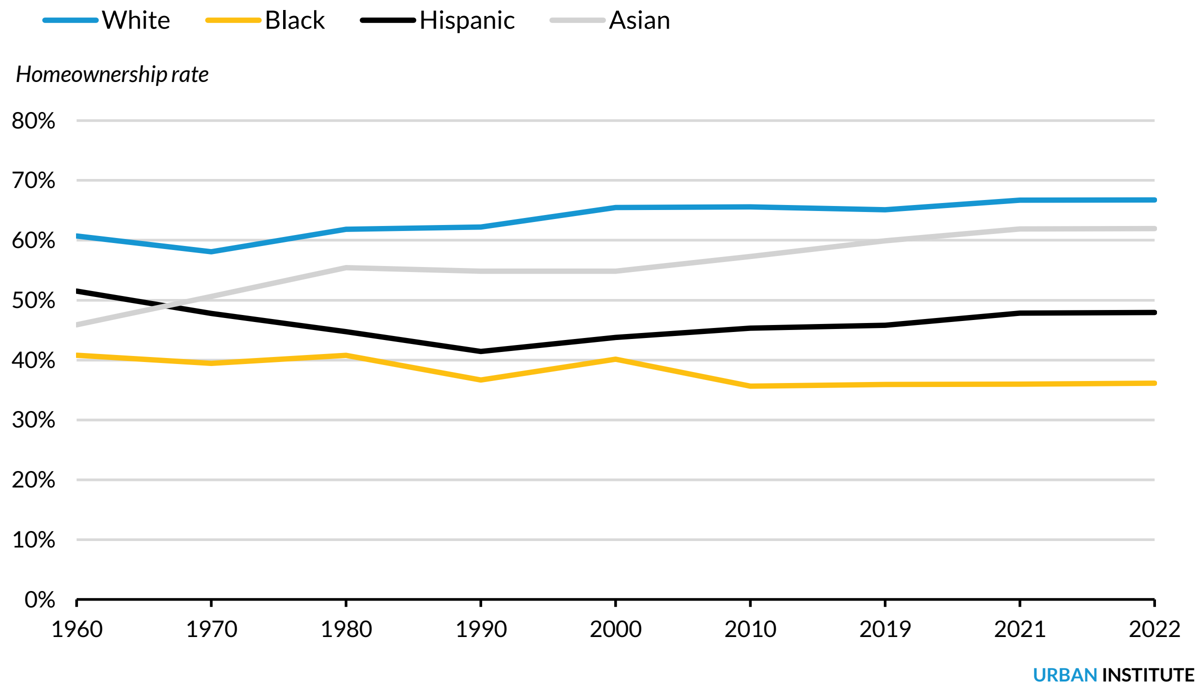


Source: 1960–90 Decennial Census and 2000–22 American Community Survey data.
Notes: I calculate homeownership rates by dividing the total number of homeowners by the total number of households. Data are for the three-state area. Households include the total number of both homeowners and renters. I exclude 2020 results because of undersampling. For a breakdown by state (for Arizona, California, and Nevada, separately), see appendix figure A.1.

Upon closer examination of households of color in the three-state area, notable discrepancies in homeownership rates relative to white households are evident, with certain groups exhibiting more pronounced differences. Figure 3 shows that in 1960, the white homeownership rate exceeded the Black homeownership rate (41 percent) by 20 percentage points, the Hispanic homeownership rate (52 percent) by 9 percentage points, and the Asian homeownership rate (46 percent) by 15 percentage points.

FIGURE 3

Homeownership Rates, in Select Years, in the Three-State Area, by Race or Ethnicity



Source: 1960–90 Decennial Census and 2000–22 American Community Survey data.
Notes: I calculate homeownership rates by dividing the total number of homeowners by the total number of households. Households include the total number of both homeowners and renters. I exclude 2020 results because of undersampling. For a breakdown by state (for Arizona, California, and Nevada, separately), see appendix figure A.2.

As of 2022, the Black homeownership rate was 36 percent, marking a significant 31 percentage-point difference from the white homeownership rate. Similarly, the Hispanic homeownership rate (48 percent) was 19 percentage points lower than the white homeownership rate. For both Black and Hispanic households, the current homeownership rate is lower than the rate in 1960. But there has been notable growth in the Asian homeownership rate, which reached 62 percent in 2022, narrowing the Asian-white gap to just 5 percentage points.

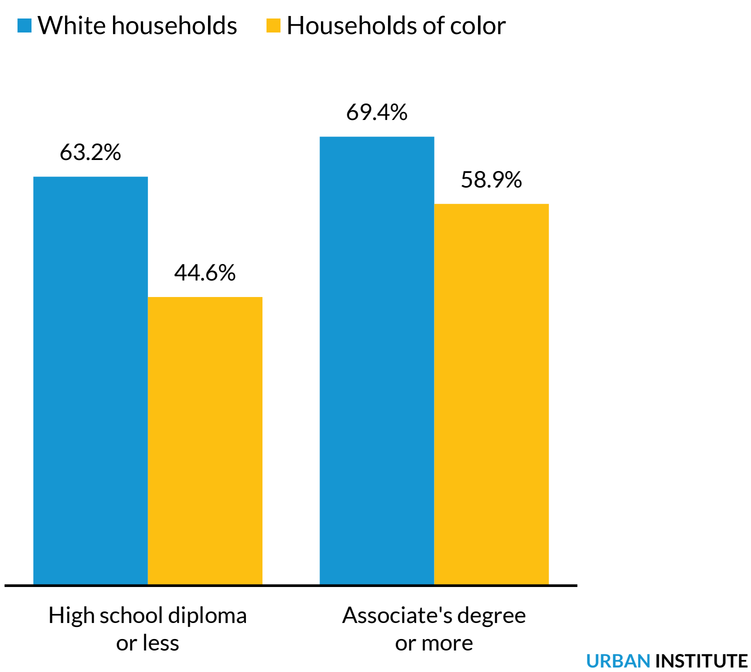
The disparity between Black and white homebuying rates has increased in Arizona, California, and Nevada. The growing gap suggests that systemic barriers continue to play a role in homeownership opportunities and are maintaining the same outcomes as the overtly racist practices of the past.

These homeownership rate gaps reflect disparities in other key areas, such as income, wealth, and credit (Choi et al. 2019), all of which play pivotal roles in determining access to homeownership. But even when I control for such factors as income and educational attainment, significant differences in homeownership remain. Figure 4 compares 2022 homeownership rates for white households and households of color in the three-state area, segmented by educational attainment. The homeownership rate among white households with a household head who had a high school diploma or less, the homeownership rate was just above 63 percent. For households of color with similar educational backgrounds, the homeownership rate was 44.6 percent, a 19 percentage-point gap. Similarly, for households where the household head holds an associate's degree or more, the gap remains substantial, albeit smaller, at just over 10 percentage points.

FIGURE 4

Homeownership Rates in the Three-State Area, by Educational Attainment

White households compared with households of color



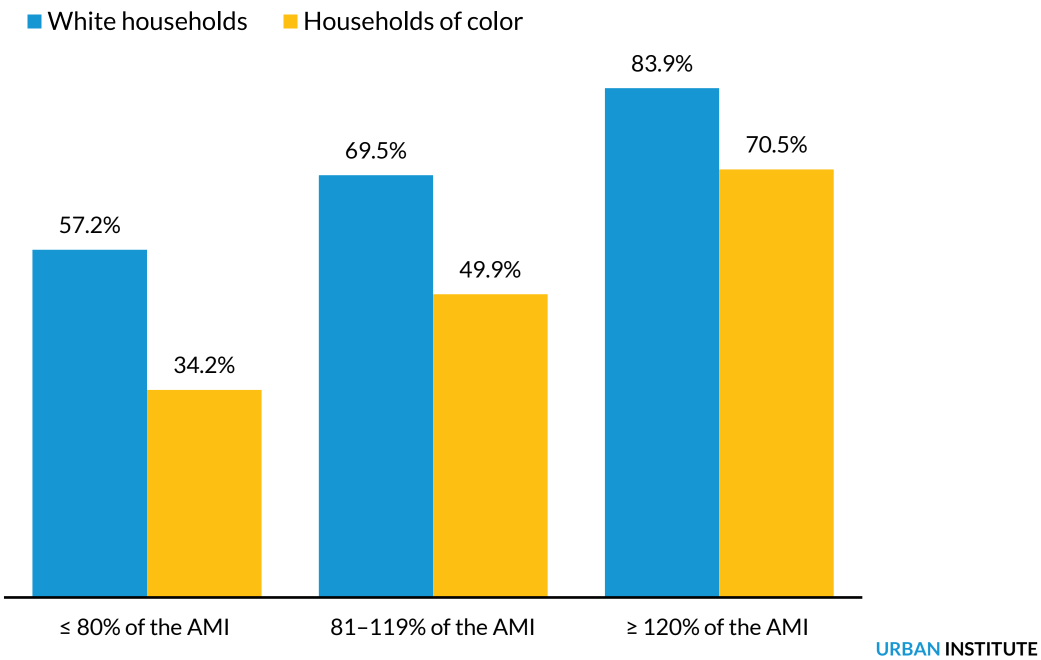
Source: 2022 American Community Survey.
Notes: I calculate homeownership rates by dividing the total number of homeowners by the total number of households. Households include the total number of both homeowners and renters. For a breakdown by state (for Arizona, California, and Nevada, separately), see appendix figure A.3.

Similarly, and relatedly, income disparities do not fully explain homeownership gaps. Figure 5 shows differences in homeownership rates when households are categorized into three income groups based on their household income relative to the area median income (AMI) of the market where the household resides: up to 80 percent of the AMI, 81 to 119 percent of the AMI, and at least 120 percent of the AMI. Across all three income groups, white households consistently exhibit higher homeownership rates compared with households of color, indicating that even when households of color earn comparable incomes, there are additional factors influencing homeownership. The largest gap is observed among households earning up to 80 percent of the AMI, with a homeownership rate gap of 23 percentage points, followed by the group earning 81 to 119 percent of the AMI (19.6 percentage points) and the group earning at least 120 percent of the AMI (13.4 percentage points).

FIGURE 5

Homeownership Rates in the Three-State Area, by Income Level

White households compared with households of color



Source: 2022 American Community Survey.

Notes: I calculate homeownership rates by dividing the total number of homeowners by the total number of households. Households include the total number of both homeowners and renters. For a breakdown by state (for Arizona, California, and Nevada, separately), see appendix figure A.4.

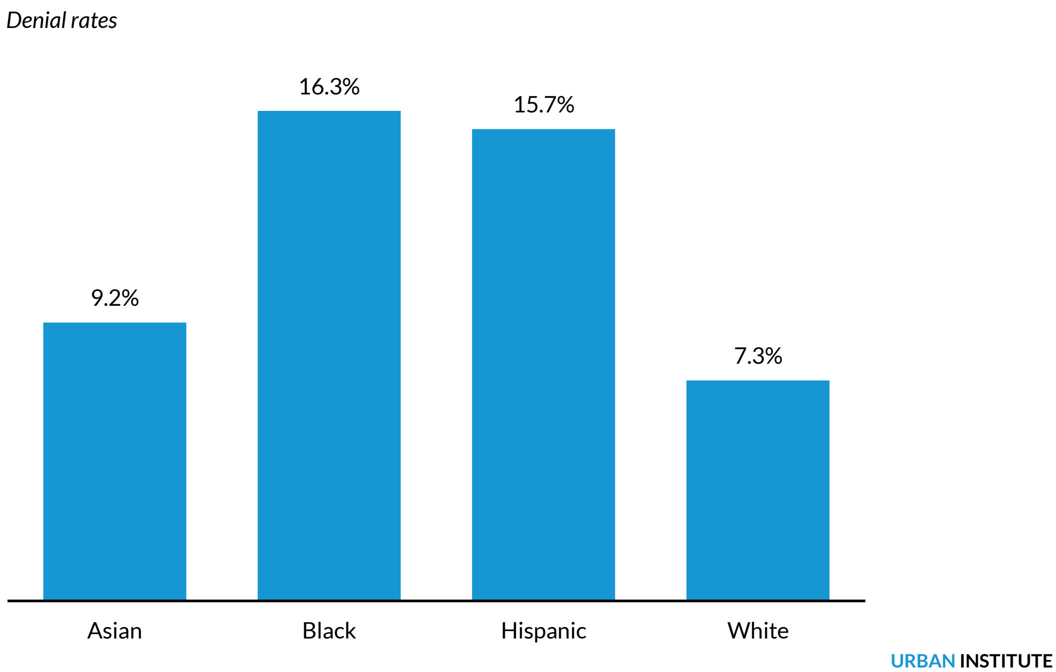
Mortgage Application Disparities in Denial Rates

The disparities identified in homeownership rates among different racial and ethnic groups directly intersect with the challenges encountered in the mortgage application process. Despite efforts to address historical inequities, households of color continue to face significant hurdles accessing mortgage financing, perpetuating housing inequality. Data show that households of color face significantly higher denial rates when applying for mortgage financing compared with white households.

Figure 6 displays the aggregate denial rates for purchase mortgage applications between 2018 and 2022 nationally, revealing disparities across different racial and ethnic groups. The data underscore significant discrepancies in denial rates based on race and ethnicity. Specifically, Black applicants faced a denial rate of 16.3 percent, compared with just 7.3 percent for white applicants, a 9 percentage-point difference. Similarly, Hispanic applicants experienced a denial rate of 13.5 percent, which is 6 percentage points higher than that of white applicants. These findings underscore the persistence of systemic inequalities in mortgage lending and emphasize the urgent need for targeted initiatives to address racial disparities and promote equitable access to mortgage credit.

FIGURE 6

Nationwide Denial Rates, by Race or Ethnicity

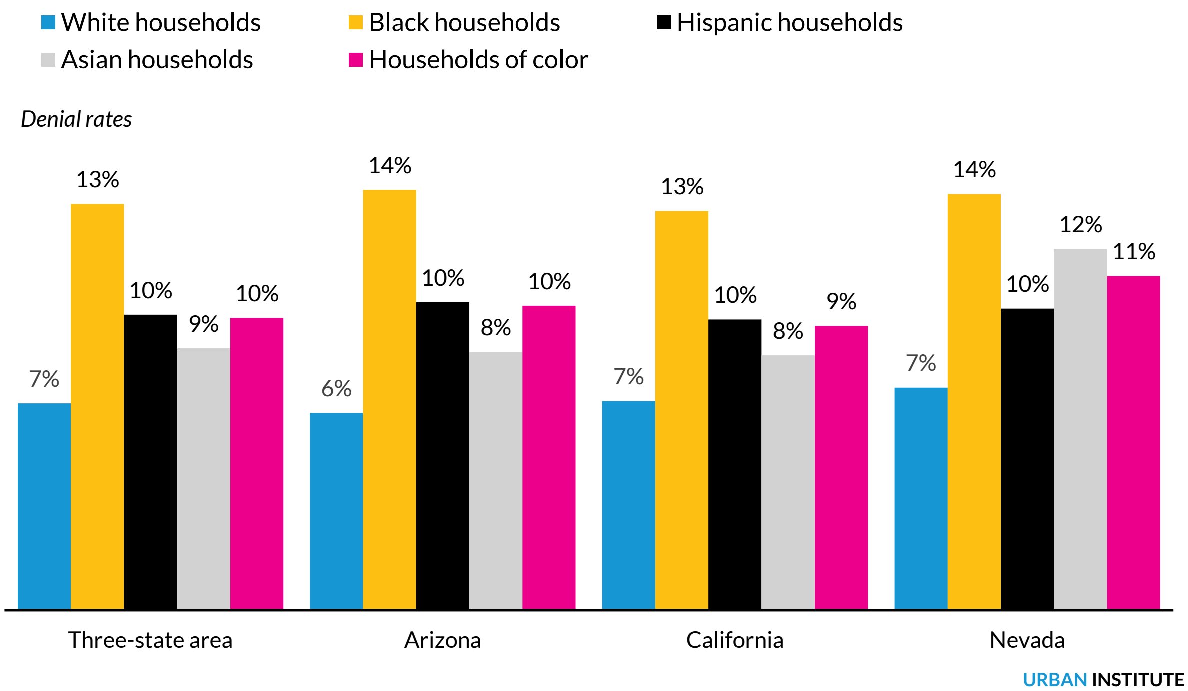


Source: 2018–22 Home Mortgage Disclosure Act aggregated one-year data.
Notes: Sample includes first-lien purchase loan applications from 2018 to 2022 in the 50 largest metropolitan statistical areas. I calculate denial rates by dividing the total number of denials by the total number of applications. Applications include originated loans, applications approved but not accepted, denied applications, denied preapproval requests, and approved preapproval requests that were not accepted. Denials include denied applications and denied preapproval requests.

Denial rates for purchase mortgages in the three-state area are shown in figure 7, and the data show the national pattern in denial rates can be seen in each state individually. The denial rate for Black mortgage applicants was highest in all three states—13 percent in California and 14 percent in Arizona and Nevada. In all three states, Hispanic mortgage applicants were denied 10 percent of the time, the second-highest rate among all racial and ethnic groups except in Nevada, where Asian applicants had the second-highest denial rate (12 percent).

FIGURE 7

Denial Rates in the Three-State Area, by Race or Ethnicity



Source: 2018–22 Home Mortgage Disclosure Act aggregated one-year data.
Notes: Sample includes first-lien purchase loan applications from 2018 to 2022 in the 50 largest metropolitan statistical areas. I calculate denial rates by dividing the total number of denials by the total number of applications. Applications include originated loans, applications approved but not accepted, denied applications, denied preapproval requests, and approved preapproval requests that were not accepted. Denials include denied applications and denied preapproval requests.

The primary reason for mortgage application denial is typically the debt-to-income ratio (table 1), which assesses the borrower's ability to manage their debt relative to their income. Following closely behind is the lack of a sufficient credit history, which lenders often use to gauge an applicant's creditworthiness and repayment reliability. Additionally, collateral, such as the property being purchased, serves as a security measure for lenders; therefore, insufficient collateral can also lead to application rejection. These factors collectively contribute to the complexities surrounding mortgage approval.

TABLE 1

Three Most-Common Reasons for Denial, by Race or Ethnicity

	Most-common reason	Second-most-common reason	Third-most-common reason
All households	DTI ratio	Credit history	Collateral
Households of color	DTI ratio	Credit history	Collateral
White households	DTI ratio	Credit history	Collateral
Black households	Credit history	DTI ratio	Other
Hispanic households	DTI ratio	Credit history	Collateral
Asian households	DTI ratio	Credit application incomplete	Collateral

Source: 2018–22 Home Mortgage Disclosure Act aggregated one-year data.

Notes: DTI = debt-to-income. Sample includes first-lien purchase loan applications from 2018 to 2022. Denials include denied applications and denied preapproval requests.

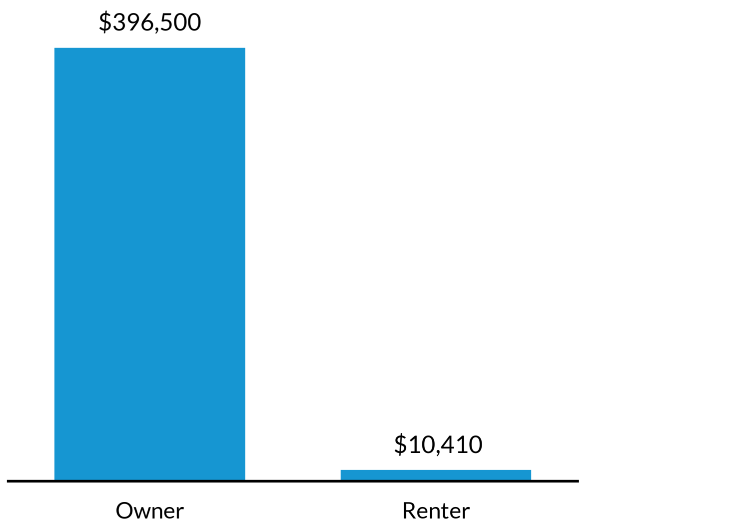
4. Racial Wealth Disparities

The homeownership gap and mortgage application gap are deeply intertwined with the wealth gap, serving as key manifestations of systemic disparities in access to economic resources. To understand wealth disparities, my discussion dissects it into various analyses to gain a comprehensive understanding. One crucial aspect I explore is rental cost burden, which disproportionately affects households of color and contributes to financial instability, making it challenging to save for homeownership. Additionally, I examine the barrier posed by inadequate down payment resources, further exacerbating the disparity in homeownership rates.

Nationally, significant racial wealth gaps persist, with households of color holding only a fraction of the wealth white families hold, on average.[8] Survey data show that when cars are removed from the calculation (which are nonliquid assets and are often overvalued by owners), the median white family's wealth is more than 30 times the wealth of the median Black family and more than 20 times the wealth of the median Hispanic family.[9] As a result, households of color are much less likely to have the liquid assets necessary for entering homeownership. Black and Latino households consistently cite a lack of cash for down payment and closing costs as the primary barrier to becoming homeowners (Goodman et al. 2018). In addition, racial wealth disparities have a compounding impact on homeownership rates; wealth is key to owning a home, but homeownership is a primary way to build wealth. Figure 8 shows that homeowners, on average, have much more wealth than renters, regardless of race or ethnicity.

FIGURE 8

National Median Wealth, by Tenure



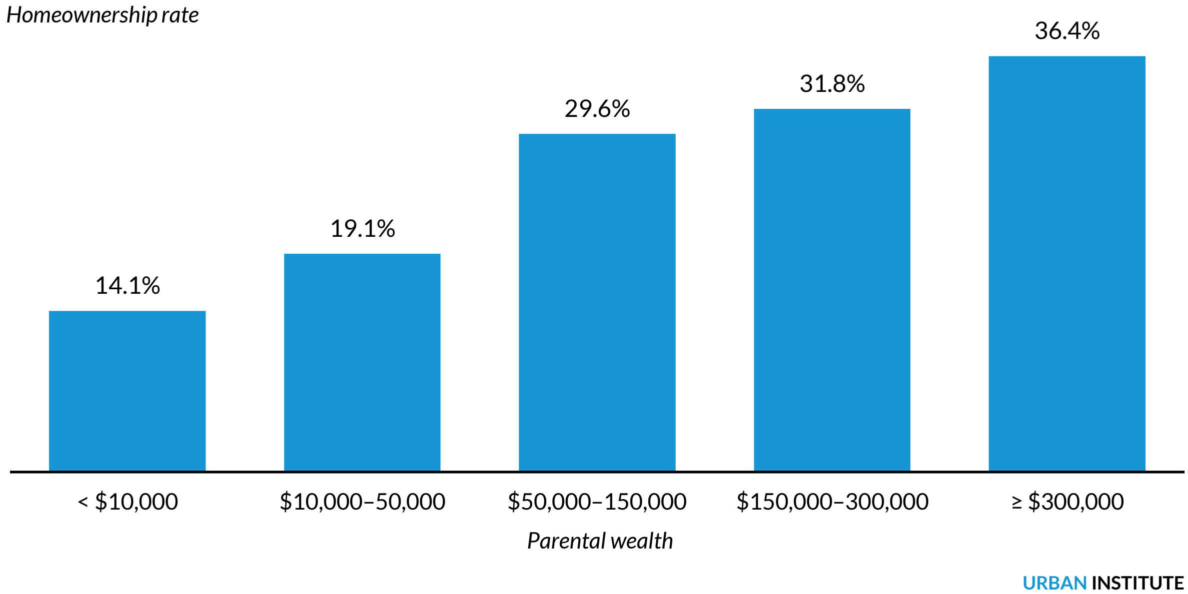
Source: 2022 Survey of Consumer Finances.
Notes: Wealth is household net worth (total assets – total debt).

Wealth Disparities: Parental Housing Wealth

Racist policies and practices have historically exacerbated wealth disparities, explicitly preventing households of color from accessing opportunities for wealth accumulation (Rothstein 2017). These disparities have persisted across generations and continue to widen. In 2019, the median net worth of parents of young white adults was more than $200,000, compared with less than $20,000 for parents of young Black adults and $35,000 for parents of young Latino adults, according to the Survey of Consumer Finances. Generational wealth gaps feed into persistent homeownership gaps, as gifts from relatives account for 32 percent of down payments for first-time homebuyers (National Association of REALTORS Research Group 2019), and loans from family and friends are also a substantial source of down payment funds.[10] Figure 7 illustrates this correlation, revealing that households with parental wealth exceeding $300,000 had a homeownership rate above 36 percent, compared with just 14 percent among households with parental wealth below $10,000.

FIGURE 9

National Homeownership Rates, by Parental Wealth



Source: Urban Institute calculations using 1999–2015 Panel Study of Income Dynamics data for ages 18 to 34.

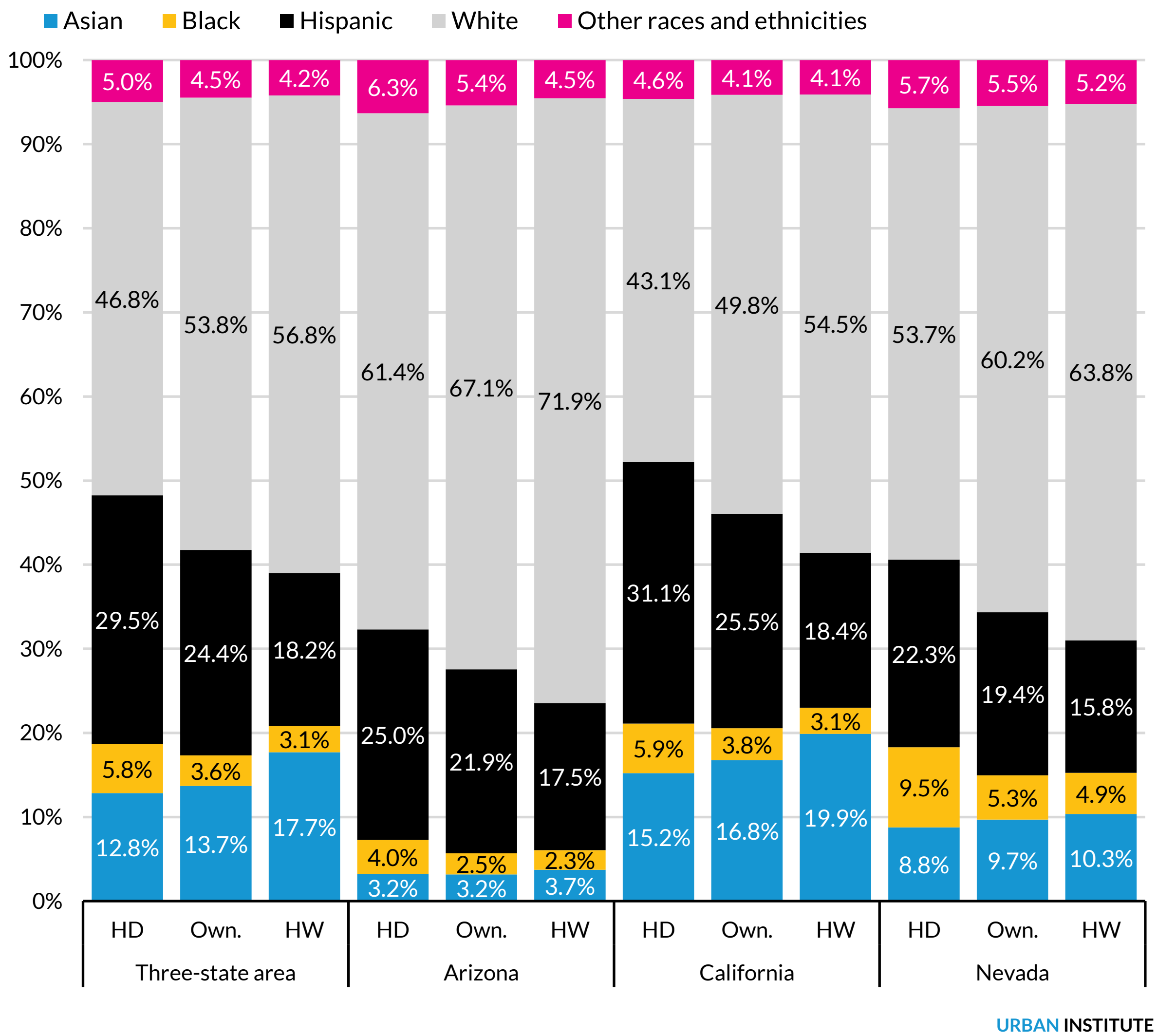
Even after achieving homeownership, households of color often do not enjoy the same wealth-building advantages as white households. Despite constituting 32 percent of all households in 2019, households of color held only 24 percent of primary-residence housing wealth (Neal et al. 2021).[11] Furthermore, research indicates appraisers systematically undervalue homes owned by people of color and homes located in communities of color, with an average undervaluation around $48,000 per home. These disparities persist even in automated valuation models, leading to larger valuation errors (Neal et al. 2020; Perry, Rothwell, and Harshbarger 2018).

Figure 10 shows the racial and ethnic composition of households, homeowners, and housing wealth (as measured by home values) for the three states individually and collectively. In the combined region, white households account for about 46.8 percent of all households but represent 53.8 percent of all homeowners and hold 56.8 percent of overall housing wealth. Conversely, Black households constitute 5.8 percent of all households but represent only 3.6 percent of homeownership and hold a mere 3.1 percent of total housing wealth. Hispanic households have the largest negative disparity in terms of percentage points between the share of homeowners and share of housing wealth in all three states. Asian and white household hold a larger share of housing wealth than their share of homes owned in all three states.

FIGURE 10

Household, Homeownership, and Housing Wealth Distribution in Arizona, California, and Nevada, by Race or Ethnicity

Three states individually and combined



Source: 2022 American Community Survey.

Notes: HD = share of households; HW = share of housing wealth; own. = share of homeowners. Household race or ethnicity is based on the household head's race or ethnicity.

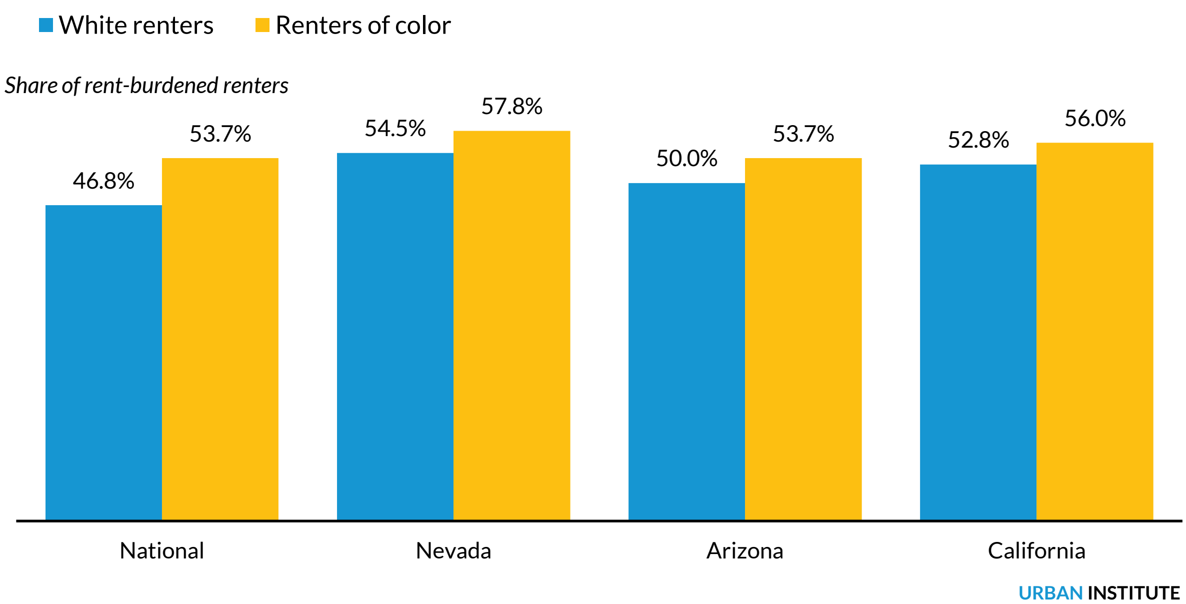
Wealth Disparities: Rental Cost Burden

In addition to the negative effects of racial homeownership rate disparities, numerous factors contribute to the perpetuation of the racial wealth gap. One such factor is housing cost burden, which is the share of a household's annual income that goes toward rent. The greater the share of income households pay in rent, the less they can save to build wealth. Households are considered "cost burdened" if more than 30 percent of their monthly income goes toward housing costs. Nationally, renters of color are significantly more likely to be cost burdened compared with white renters (figure 11). Although this discrepancy exists across all three of the focus states, the intensity varies, with almost 58 percent of renters of color being cost burdened in Nevada, relative to 56 percent in California and 53.7 percent in Arizona in 2022.

FIGURE 11

Share of Housing Cost–Burdened Renter Households, Nationally and for Arizona, California, and Nevada

Renters of color compared with white renters

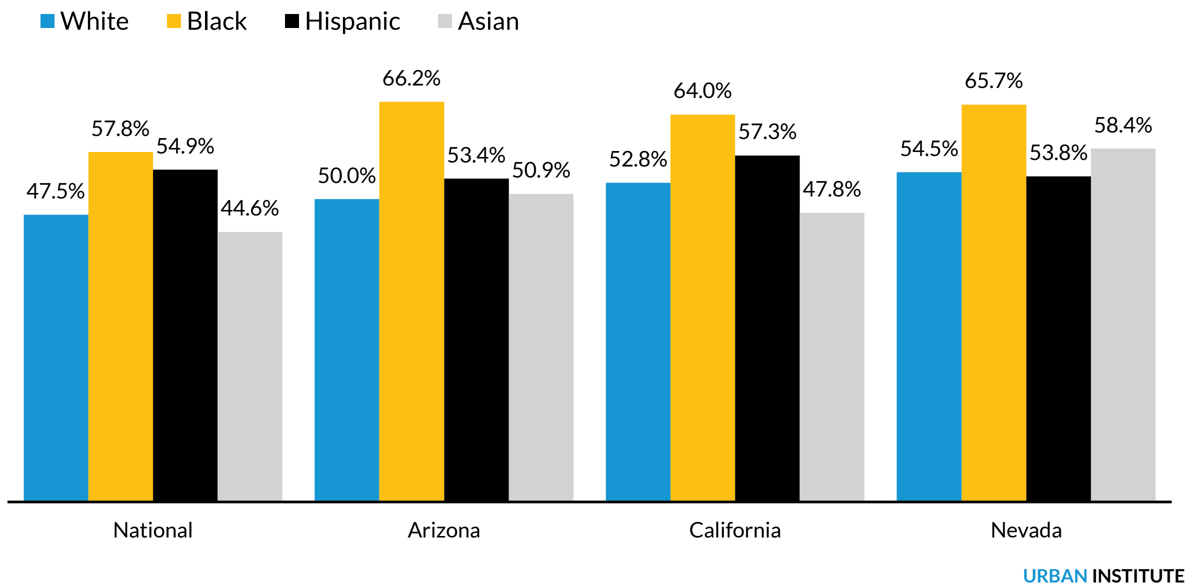


Source: 2022 American Community Survey.

Figure 12 shows the share of cost-burdened renter households by race and ethnicity nationally and for the states in the three-state area. Black renter households are the most likely to be cost burdened (57.8 percent of Black households nationally), signifying a smaller portion of annual income available for savings compared with households in other demographic groups. This trend persists across all three states. The rate is highest in Arizona, where 66.2 percent of Black renter households are cost burdened. Comparably, 54.9 percent of Hispanic renters were cost burdened nationally, approximately 7.5 percentage points higher than the share of white renters. But in Nevada, Hispanic renters exhibit a cost burden share comparable with the share among white renters. Notably, Asian renters demonstrate the lowest or second-lowest share of cost-burdened households across all locations, except in Nevada, where Hispanic renters hold this distinction.

FIGURE 12

Share of Housing Cost–Burdened Renter Households, Nationally and for Arizona, California, and Nevada, by Race or Ethnicity



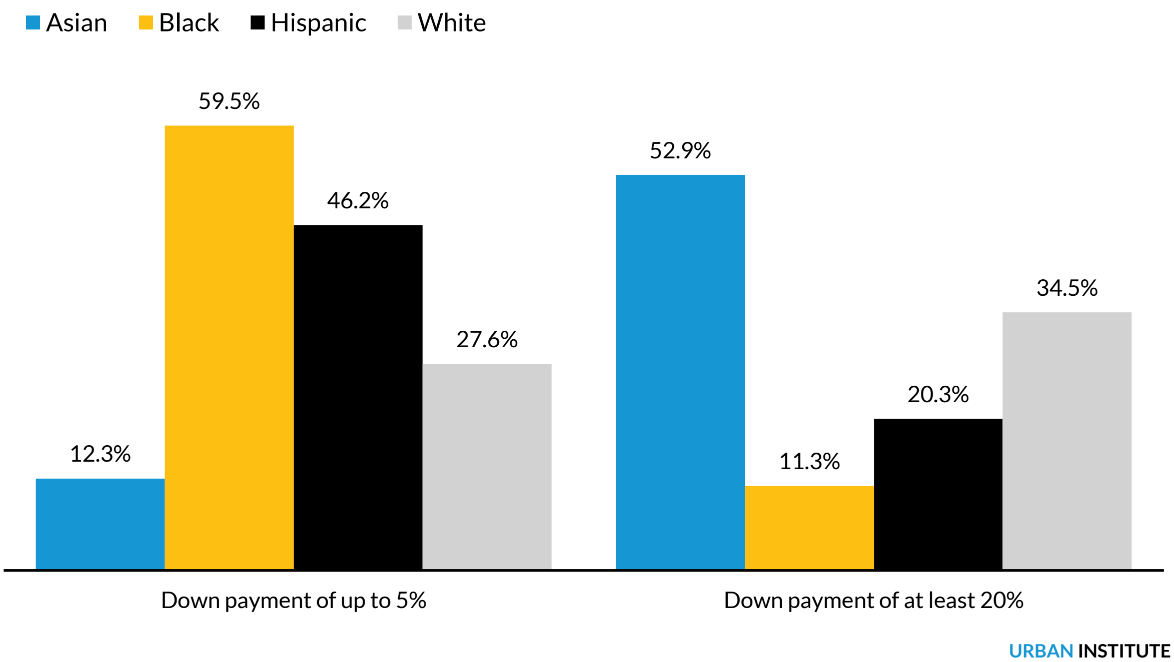
Source: 2022 American Community Survey.

Wealth Disparities: Cash for Down Payments

The racial wealth gap, coupled with disparities in income and savings, translates into fewer resources available for renters of color to allocate toward a down payment, consequently constraining their options for homeownership. Figure 13 shows that nationally for mortgages originated between the years 2018 and 2022, only 11.3 percent of Black homebuyers and 20.3 percent of Hispanic homebuyers put down 20 percent or more on their home, compared with 34.5 percent of white homebuyers and 52.9 percent of Asian homebuyers. Conversely, a notable portion of Black and Hispanic buyers—59.5 and 46.2 percent, respectively—put down 5 percent or less, a considerably higher proportion than the 27.6 percent of white buyers and 12.3 percent of Asian buyers who do so.

FIGURE 13

Share of Households Putting 5 and 20 Percent Down, Nationally, by Race or Ethnicity

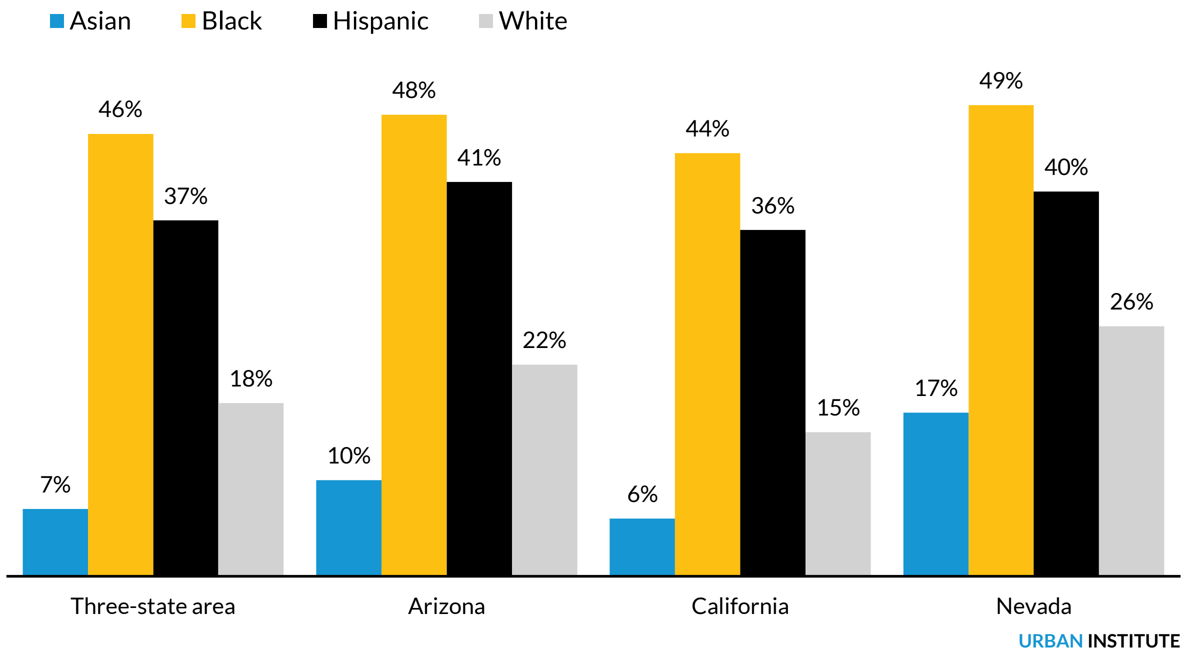


Source: 2018–22 Home Mortgage Disclosure Act aggregated one-year data.
Notes: Purchase mortgages only. I calculated down payment shares by taking the share of borrowers with loan-to-value ratios below 80 percent for at least 20 percent down and loan-to-value ratios above 95 percent for 5 percent down or less. For a breakdown by state (for Arizona, California, and Nevada, separately), see appendix figure A.5.

This nationwide pattern persists for households in the three-state area (figure 14), where the share of borrowers putting down no more than 5 percent in all three states is substantially higher among Black and Hispanic borrowers. Across all three states combined, 46 percent Black homebuyers and 37 percent of Hispanic homebuyers put down 5 percent or less. In contrast, only 18 percent of white homebuyers put down 5 percent or less, representing a 27 percentage-point difference compared with Black homebuyers and a 19 percentage-point difference compared with Hispanic homebuyers.

FIGURE 14

Share of Households Putting Up to 5 Percent Down in Arizona, California, and Nevada, by Race or Ethnicity

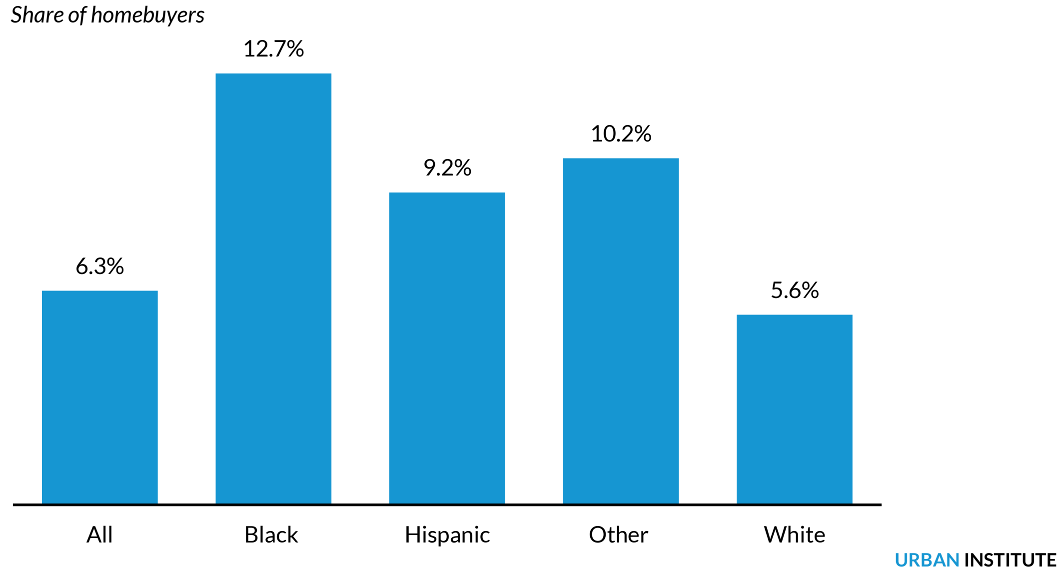


Source: 2018–22 Home Mortgage Disclosure Act aggregated one-year data.
Notes: Purchase mortgages only. I calculated down payment shares by taking the share of borrowers with loan-to-value ratios above 95 percent for 5 percent down or less.

Moreover, results from the National Survey of Mortgage Originations indicate a significant discrepancy in the use of down payment assistance between white homebuyers and homebuyers of color. Figure 15 shows that nationally, just under 13 percent of Black homebuyers received assistance from the government or a nonprofit when making their down payment, compared with only 5.6 percent of white homebuyers and 6.3 of all homebuyers. Hispanic homebuyers received assistance 9.2 percent of the time, further indicating that traditional credit service remains inaccessible for a higher share of Black and Hispanic households.

FIGURE 15

Share of Borrowers Who Used Government or Nonprofit Down Payment Assistance Nationally



Source: 2020 National Survey of Mortgage Originations.

5. Target Market Analysis and SPCP Design

Setting eligibility criteria is another fundamental consideration for SPCP design, as well as for setting goals and measuring success. This section discusses two types of approaches for designing SPCP eligibility criteria: person-based and place-based criteria.[12] In a person-based design, eligibility is specific to borrower characteristics, such as household income, race or ethnicity, and first-generation homebuyer status, all of which are directly linked to the personal characteristics of the population the lender intends to serve. In a place-based design, eligibility is based on characteristics related to the current place the borrower resides or the place where the home is being purchased, such as median neighborhood income and the share of a neighborhood's households that are households of color. In place-based programs, eligibility is indirectly linked to the intended population via geographic characteristics.

According to the CFPB advisory opinion, lenders must substantiate their SPCP criteria with evidence that demonstrates a connection to the intended population. One approach for evaluating a program's criteria is to look at how well the eligibility requirements tie to the population of the intended group, or *program coverage*. Additionally, SPCP design can be evaluated by the share of eligible households that are intended, or *program focus*. This section shows how publicly available data can be leveraged to estimate the impact of different eligibility criteria by examining the *coverage* and *focus* of an SPCP in the three-state area.

Sizing the Intended Market

When assessing a place-based program, it is crucial to gauge the scope of the market it serves. In the context of a purchase mortgage SPCP for first-time homebuyers of color, the intended market can be broadly measured as the number of rental households of color living in the service area. Figure 16 shows the total number of renter households in the three-state area broken out by whether the households are white households or households of color, as well as indicators of income level. Across the entire region, there are 4.4 million rental households of color, constituting 60 percent of the total renter population.

FIGURE 16

Composition of the Renter Population in Arizona, California, and Nevada, White Households and Households of Color, by Income

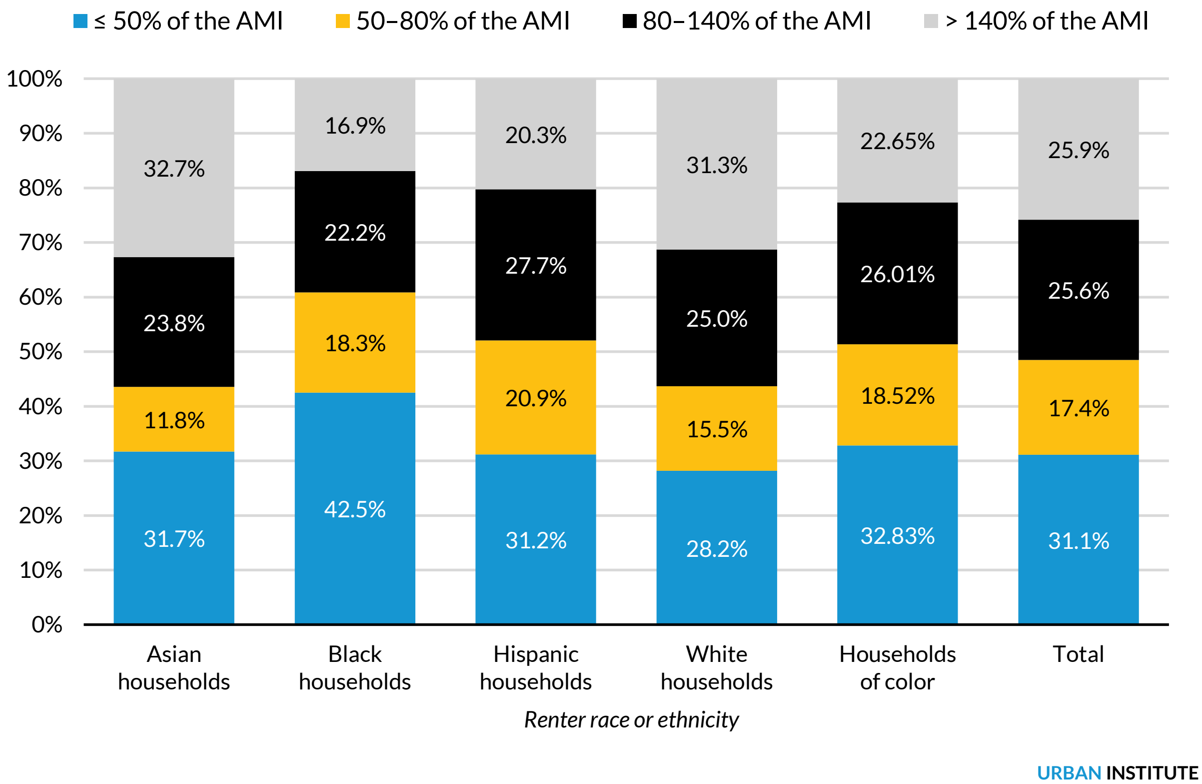
Sources: 2017–21 American Community Survey data, five-year estimates, and Urban Institute calculations.
Notes: HOC = households of color. Numbers by income are based on Urban Institute estimates and will have larger margins of error than census summary estimates.

The overall renter population is likely an overestimate of the intended reach of a mortgage-based SPCP for several reasons. First, programs may apply an upper limit on income to avoid serving very high–income households (for our example, those earning above 140 percent of the AMI). Furthermore, a portion of renter households are not potential homebuyers, given their financial positions, even with access to special credit. Although several factors determine whether a household is ready to buy a home, very low income can serve as a rough proxy for households that are not potential buyers (for our example, those earning less than 50 percent of the AMI). When you remove these groups from the composition, the intended market is just under 1.9 million renter households, approximately 27 percent of all renters (yellow box in figure 16).

The distribution of renters by share of the AMI differs by race and ethnicity (figure 17). For example, 60.8 percent of Black renter households in the market earn up to 80 percent of the AMI, compared with 43.7 percent of white renters and 43.5 percent of Asian renters. For Hispanic households, the share is 52.1 percent. These disparities suggest that the potential market size will vary depending on the population a lender intends to serve with its SPCP and that program eligibility around income could yield different outcomes for each racial and ethnic group.

FIGURE 17

Renter Household Racial and Ethnic Composition, by Income as a Share of the Area Median, in Arizona, California, and Nevada



Source: 2021 American Community Survey.
Notes: AMI = area median income. Households of color total includes American Indian or Alaska Native renters.

An SPCP's goal is to assist households on the margin of this population—that is, borrowers who are close to mortgage ready but would be denied or ineligible if not for special assistance. This gets into the importance of setting criteria. The next section looks at several hypothetical SPCP designs that use people-based and place-based approaches.

Measuring Program Criteria: Person-Based and Place-Based Criteria

Program evaluation can benefit from an overall framework of analysis. One possible framework builds around the two measurements noted in the introduction to this section: coverage and focus. Coverage is the share of an intended market that would be eligible under a program's qualifying criteria. Coverage measures how much of your intended population the criteria will include (and exclude).

COVERAGE = Total intended population / Members of intended population who are eligible (meet criteria) (1)

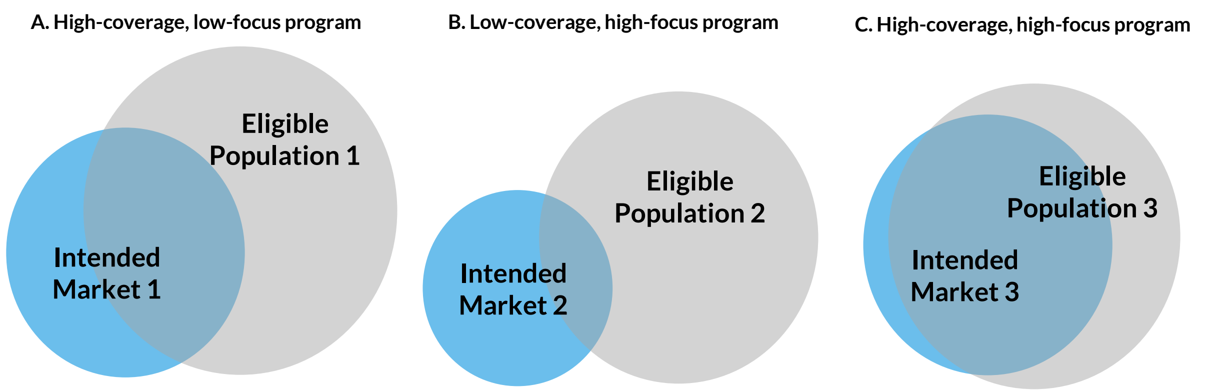
Focus, on the other hand, is the intended market's share of all eligible households under program criteria. Focus measures how much your criteria exclude (or include) people who are not in the intended market.

FOCUS = Members of intended population who are eligible (meet the criteria) /Total eligible (total who meet the criteria) (2)

Figure 18 visualizes how these two measurements interact, with the gray bubble representing the eligible population and the blue bubble representing the intended market.

FIGURE 18

Diagram for a Place-Based Criteria Framework



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Both the *intended market* and *eligible population* are concepts that must be defined by the program administrator. Consider a lender that wants to launch a down payment assistance program to serve households of color who have been affected by historical lending discrimination. The intended market would be households of color who are strong candidates for the product, and the eligible market would be all households who are eligible to apply under the program criteria. In figure 18, bubble C represents a program that scores high on both coverage and focus. Keeping with the prior example, this would represent a program design where a high portion of the eligible population is households of color, and a high share of total households of color are eligible under the program criteria.

Alternatively, bubble B represents a program with both low coverage and low focus. In contrast to bubble C, sticking with the example laid out above, this would represent a program where a low share of total households of color are eligible (possibly because of overly strict eligibility standards) and a high portion of the eligible population is white households. As a result, the program would likely struggle to focus service on the intended population.

The data presented so far suggested that lenders might serve very different borrowers by varying income and racial eligibility criteria, using different individual or geographically based factors, or combinations thereof. Below, I present analysis of how different program designs result in different-looking eligible populations in the three-state area and select metropolitan statistical areas.

Person-Based Approaches to Setting Criteria

Evidence from the broad-based analysis above highlights the financial disparities renter households of color face, including lower average income and less access to wealth. This section uses four hypothetical eligibility requirements for a down payment SPCP intended to serve renters of color who have faced historical discrimination (table 2). Using household counts from the three-state area, this section evaluates these hypothetical criteria through a quantitative framework to calculate estimates of how well they serve the intended population.

TABLE 2

SPCP Criteria Examples

Program criteria	SPCP example	Program type
1. Household race and ethnicity	Renters of color	Place based
2. Household income	Renters earning up to 80 percent of the AMI	Place based
3. Household race and ethnicity + household income	Renter households of color earning up to 80 percent of the AMI	Place based
4. Household race and ethnicity + neighborhood income	Renters of color living in neighborhoods where more than 50 percent of households are households of color	Place based and person based

Note: AMI = area median income; SPCP = special purpose credit program.

Running the criteria above through the evaluation framework, table 3 shows the results for each SPCP design. The results show that, by definition, person-based criteria can be highly effective at covering and focusing on an intended population. Criteria 1, which bases eligibility solely on the borrower's race or ethnicity, would score 100 percent in both coverage and focus; in other words, it is inclusive of all renters of color (approximately 4.4 million in the overall market). To create a more complete illustration, the evaluation results below count renter households that are not potential buyers and very high–income renters (as defined under figure 16).

TABLE 3

Criteria Evaluations for the Person-Based Programs in Arizona, California, and Nevada

Criteria	Intended eligible	Coverage	Unintended eligible	Focus
1. Renters of color	4,379,729	100.0%	0	100.0%
2. All LMI renters	2,636,573	60.3%	1,494,071	63.9%
3. LMI renters of color	2,639,573	60.3%	0	100.0%
4. Renters of color in LMI tracts	2,268,345	51.8%	0	100.0%

Source: 2017–21 American Community Survey data, five-year estimates, and Urban Institute calculations

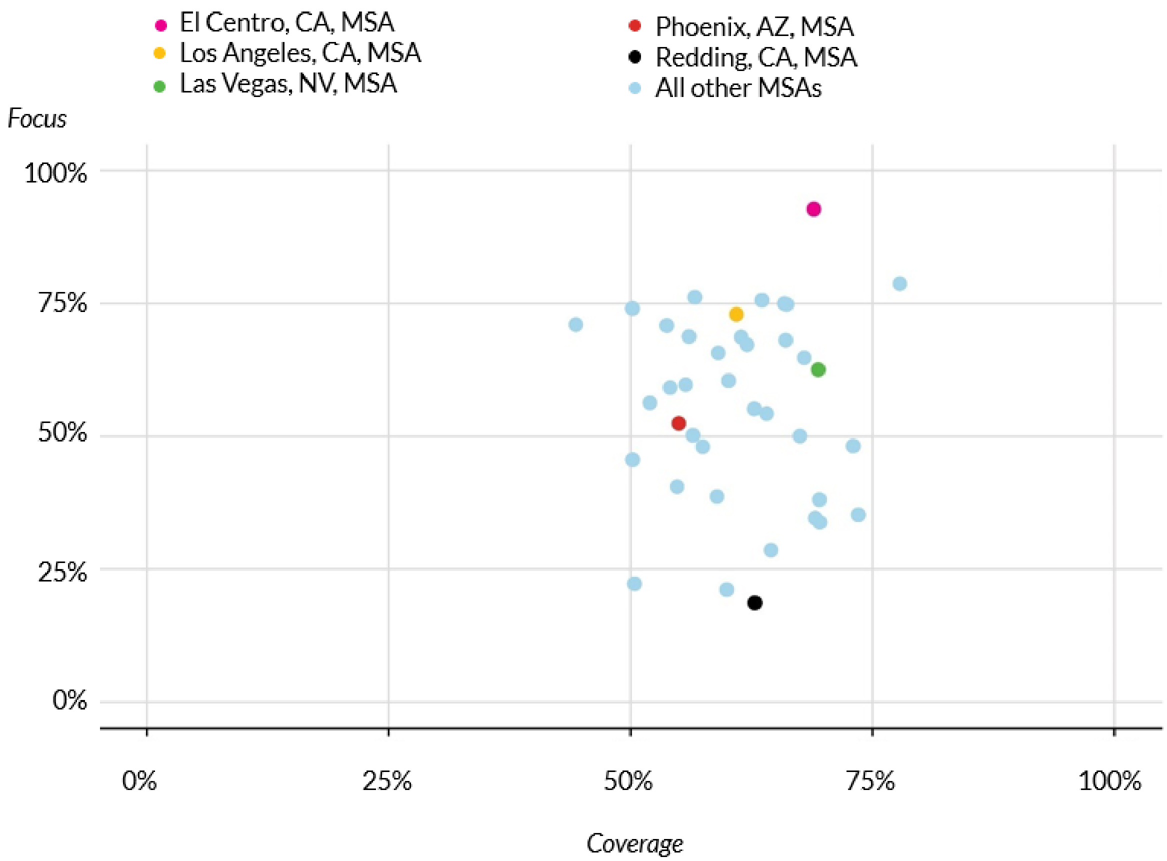
Notes: LMI = low-to-moderate-income. Numbers by income are based on Urban Institute estimates and will have larger margins of error than census summary estimates.

Person-based qualities beyond race or ethnicity show more variability under this evaluation. Criteria 2 uses an income cutoff of 80 percent of the AMI, the same standard used by the Community Reinvestment Act. Under this criteria, 63.9 percent of the eligible population are from the intended population (reflecting the high share of LMI renting households in this region that are households of color), but only 60.3 percent of the intended population are eligible. If the income criterion is combined with race and ethnicity, as in criteria 3, although the coverage remains the same (60.3 percent), the share of the eligible population that are from the intended population goes up to 100 percent. Going a step further, a program can combine place-based and person-based criteria, such as criteria 4, where applicants must be renters of color living in tracts where the median income is less than 80 percent of the AMI. Though focus remains high (100 percent), coverage would decline relative to criteria 1 and 2, down to 51.8 percent.

Person-based criteria, though tied directly to the client, can also produce very different results in different places. Figure 19 shows how all 37 metropolitan statistical areas (MSAs) in the region score with evaluation criteria 2: renters earning up to 80 percent of the AMI. The plot shows that although coverage is somewhat consistent, between 50 and 75 percent, focus varies significantly. For example, in El Centro, California, almost all eligible renter households would be households of color, meaning there are very few white renters earning only up to 80 percent of the AMI. On the opposite end, in Redding, California, approximately 80 percent of eligible households would be white.

FIGURE 19

Evaluation of MSAs in the Three-State Area for Special Purpose Credit Program Eligibility Set for Renters Earning Up to 80 Percent of the AMI



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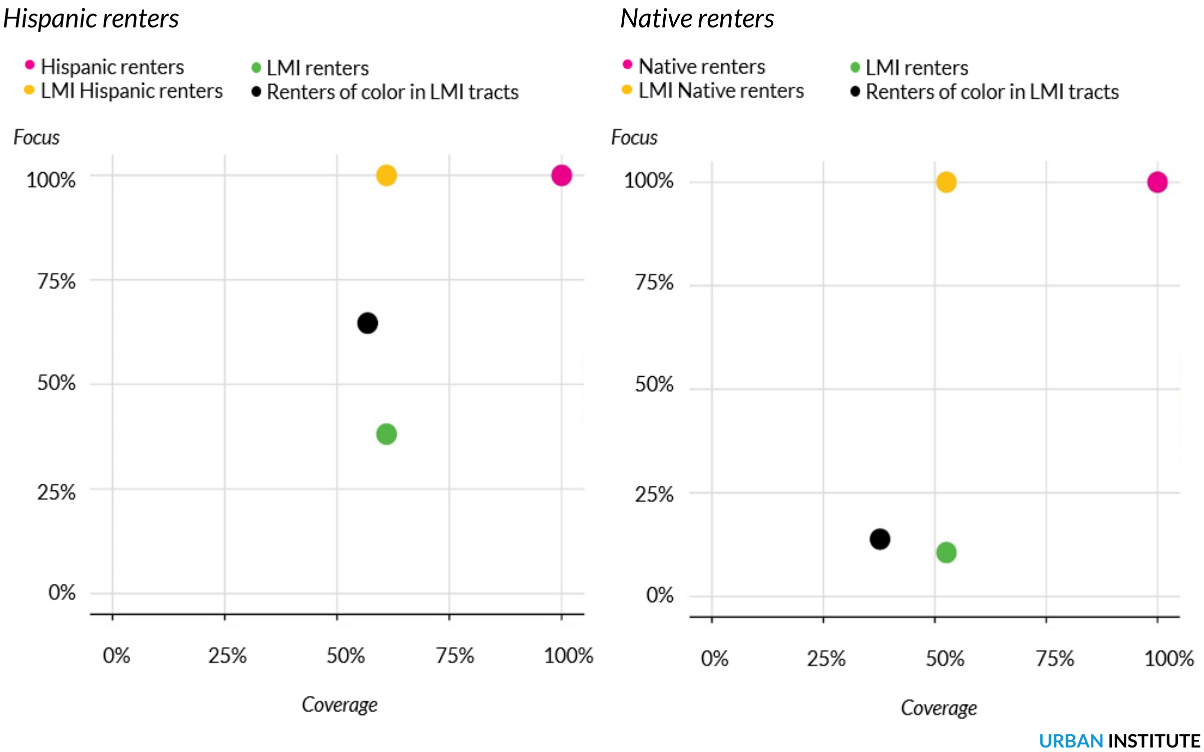
Sources: 2017–21 American Community Survey five-year estimates and Urban Institute calculations.
Notes: AMI = area median income; MSA = metropolitan statistical area. Numbers by income are based on Urban Institute estimates and will have larger margins of error than census summary estimates.

Although this theoretical evaluation has considered all renter households of color to be the intended population, the results of different criteria look very different based on more select racial and ethnic groups. Figure 20 shows how different criteria options would yield different results for an intended population of Hispanic renters relative to Native American renters in the three-state area. The visualization below shows how criteria 4, renters of color in low-to-moderate-income tracts, score much worse on focus and coverage for Native renters than for Hispanic renters, because Native households are generally less geographically concentrated. Here, a strictly people-based approach would be especially well justified because of the difficulty in reaching Native renter households living off tribal lands through place-based characteristics.

FIGURE 20

Criteria Evaluations for the Three-State Area, Intended Population Comparison of Hispanic and Native Renters



Sources: 2017–21 American Community Survey five-year estimates and Urban Institute calculations.
Notes: LMI = low-to-moderate-income. Numbers by income are based on Urban Institute estimates and will have larger margins of error than census summary estimates.

Place-Based Approaches to Setting Criteria

The section above focused on person-based SPCP criteria. This section uses four place-based hypothetical eligibility requirements for a down payment SPCP with an intended population of renters of color, who have faced historical discrimination (table 4). Again, using household counts from the three-state area, this section evaluates these hypothetical criteria through a quantitative framework to calculate estimates of how well they serve the intended population.

TABLE 4

SPCP Program Criteria Examples

Program criteria	SPCP example	Program type
5. Neighborhood income	Renters in tracts with a median income up to 80 percent of the AMI	Place based
6. Neighborhood racial composition	Renters in tracts where more than 50 percent of households are households of color	Place based
7. Neighborhood income and racial composition	Renters in tracts where more than 50 percent of households are households of color or tracts where the median income is up to 80 percent of the AMI	Place based
8. Renter income and neighborhood composition	Renters earning up to 80 percent of the AMI that live in tracts where more than 50 percent of households are households of color	Place based and person based

Note: AMI = area median income; SPCP = special purpose credit progam.

Place-based criteria are not as direct as person-based designs and, as a result, generally have less efficacy using this evaluation framework. Under criteria 5, which sets eligibility based on neighborhood income, only about half the intended population would be eligible, as many households of color live outside low-to-moderate income neighborhoods. This approach mirrors the Community Reinvestment Act's place-based criteria, which has had mixed results in serving household of color, as was its original intent (Goodman et al. 2022). Alternatively criteria 6, which sets eligibility based on neighborhood racial and ethnic composition, would result in 78 percent of all eligible applicants being part of the intended population, and 73 percent of the total intended population would be eligible. A mixed person-based and place-based criteria, such as that used in criteria 8, can raise the overall focus but risks further reducing coverage.

TABLE 5

SPCP Criteria Examples

Criteria	Intended eligible	Coverage	Unintended eligible	Focus
5. LMI tracts	2,268,345	51.8%	838,961	73.0%
6. Tracts that are predominantly people of color	3,209,580	73.3%	898,531	78.1%
7. LMI tracts or tracts that are predominantly people of color	3,485,355	79.6%	1,299,999	72.8%
8. LMI renters in tracts that are predominantly people of color	1,969,542	45.0%	475,654	80.5%

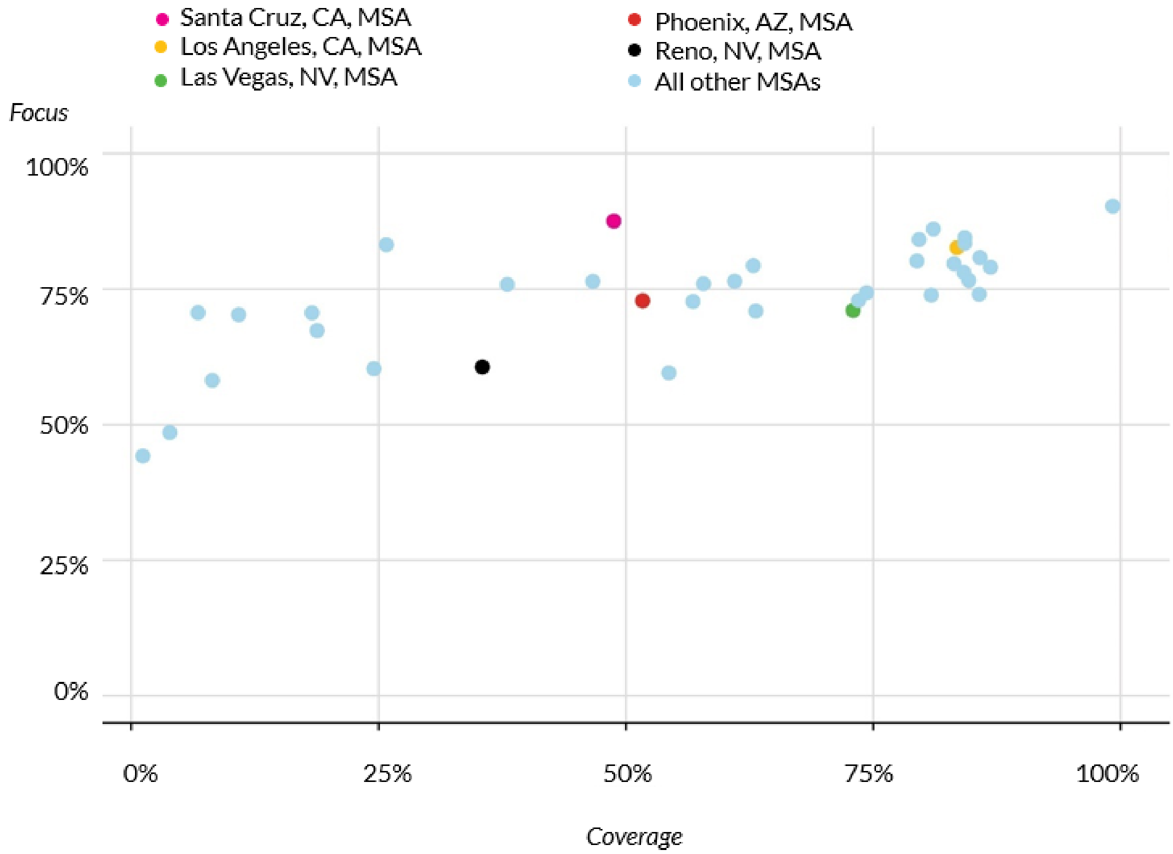
Sources: 2017–21 American Community Survey, five-year estimates, and Urban Institute calculations.

Notes: LMI = low-to-moderate-income; SPCP = special purpose credit program. Numbers by income are based on Urban Institute estimates and will have larger margins of error than census summary estimates.

As would be expected in a place-based design, the evaluation results differ significantly by MSA. Figure 22 focuses on criteria 2, which requires that program participants live in neighborhoods of color. Looking at all 37 MSAs in the three-state area, there is significant variation in how such a criterion would perform both with focus and coverage. Santa Cruz, a midsize California MSA, would have the second-highest focus but just below 50 percent coverage (by eliminating households of color who do not live in those tracts). Alternatively, the Reno MSA in Nevada has coverage closer to 30 percent and focus around 60 percent.

FIGURE 22

MSAs in the Three-State Area, Coverage and Focus for a Criterion Based on a Neighborhood Being Predominantly People of Color



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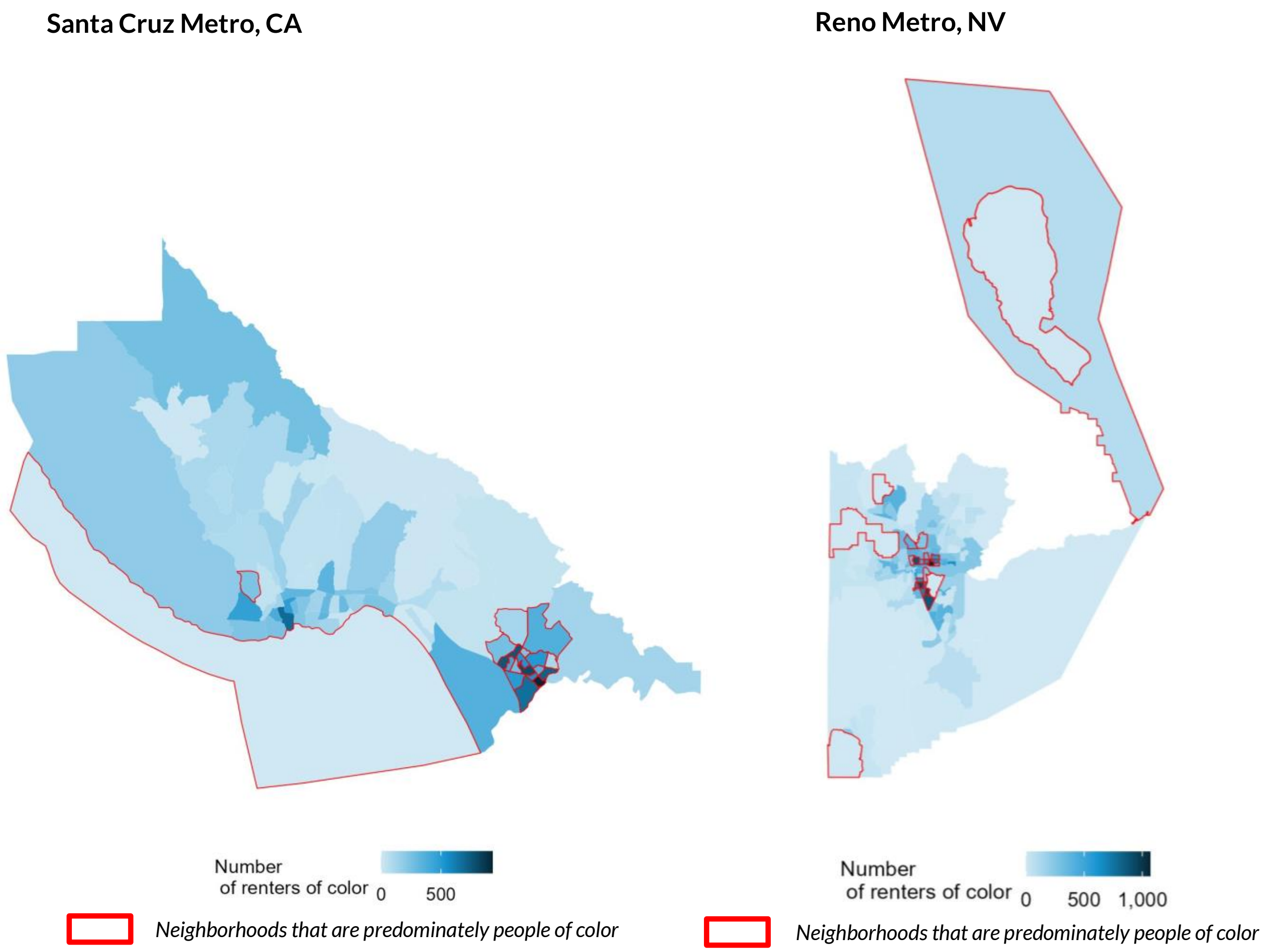
Sources: 2017–21 American Community Survey five-year estimates and Urban Institute calculations.
Notes: AMI = area median income; MSA = metropolitan statistical area. Numbers by income are based on Urban Institute estimates and will have larger margins of error than census summary estimates.

One benefit to place-based criteria is that the evaluation of program design can use mapping. Continuing with the example from figure 22, figure 23 pulls out Santa Cruz and Reno and compares the census tracts that are predominantly people of color (outlined in red) with the distribution of residents of color by census tract in the MSA. The difference in evaluation results can be easily seen in the maps below. In Santa Cruz, which had a reasonably high focus using neighborhoods of color as the criteria, there is clear overlap between neighborhoods with most of the MSA's residents of color and tracts that are predominantly people of color. On the other hand, Reno, which scored worse on coverage, shows that renters of color are more dispersed and not well captured by criteria related to a census tract being predominantly people of color.

FIGURE 22

Coverage and Focus for a Criterion Based on a Neighborhood Being Majority People of Color in the Santa Cruz and Reno Metropolitan Statistical Areas



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Sources: 2017–21 American Community Survey five-year estimates and Urban Institute calculations.
Note: Numbers by income are based on Urban Institute estimates and will have larger margins of error than census summary estimates.

The measurements described above are not meant to be absolute measures of the quality of an SPCP. Many factors determine how a lending institution ends up designing its SPCP, including administrative burden and legal considerations, and, of course, underwriting criteria. The framework in this section simply lays the groundwork for how data can be used to measure SPCP goals and provides a succinct metric for comparing the impact of different criteria. Focus and coverage are just two broad considerations for an SPCP, and neither is directly mentioned in the ECOA or the CFPB advisory opinion. But given the data available, this framework serves as a reasonable consideration for setting criteria and would base those criteria in data, as is required by the CFPB advisory opinion.

6. Conclusion

This report examines the SPCP and its background. Moreover, it analyzes homeownership and mortgage application disparities across Arizona, California, and Nevada and sheds light on persistent challenges households of color face in accessing housing and mortgage financing. Despite strides in fair housing legislation, significant gaps remain, reflecting ongoing barriers that hinder equitable access to homeownership opportunities.

Moreover, wealth gaps have contributed to disparities in homeownership rates and mortgage lending outcomes. Generational wealth gaps and property undervaluation further limit access to resources necessary for down payments and sustainable homeownership. Rent burden disproportionately affects renters of color, impeding their ability to save and build wealth for homeownership.

The evaluation of SPCPs benefits from a comprehensive framework of analysis, which revolves around two key measurements: coverage and focus. The evaluation results across metropolitan areas in Arizona, California, and Nevada highlight the importance of considering place-based criteria in SPCP design. Person-based criteria may offer more consistent outcomes, especially in terms of coverage, but place-based criteria provide valuable insights into geographic disparities and enable targeted interventions to address specific challenges communities face. Ultimately, by leveraging place-based (with a combination of person-based) analyses, lenders can develop SPCPs that effectively serve the needs of diverse populations, advancing the goal of inclusion and equity.

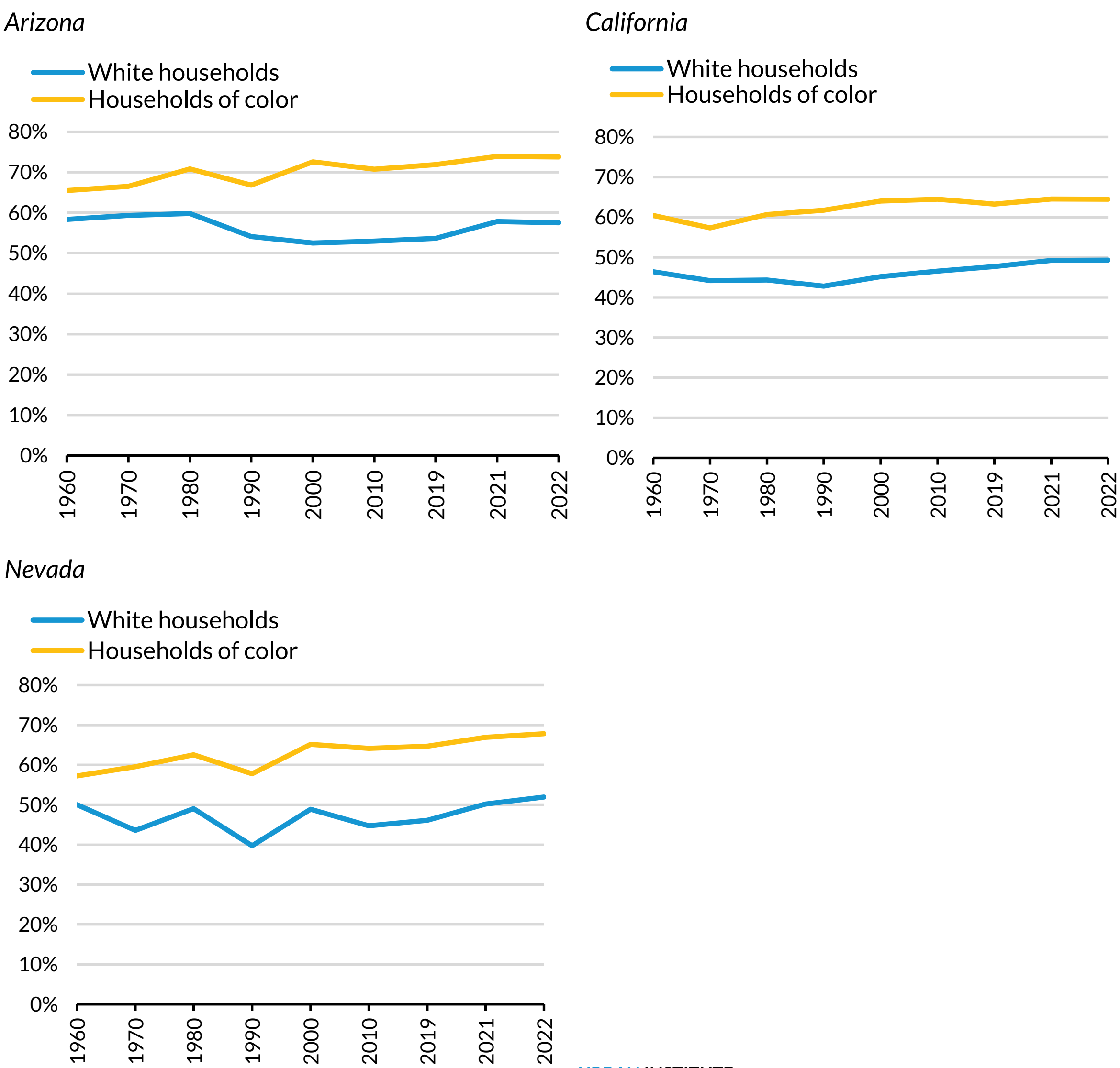
This report is not all that is required to create and implement an SPCP and does not constitute any legal advice or recommendation about how to operate an actual program. For a more complete guide of what is required for an SPCP, I recommend using spcptoolkit.com, which provides comprehensive resources for all aspects of building an SPCP, including legal and regulatory requirements.

Appendix

This appendix breaks out results for each state individually (Arizona, California, and Nevada) from places in the main report where the results are shown in aggregation. Not all sources allow for breakout by state.

FIGURE A.1

Homeownership Rates, in Select Years



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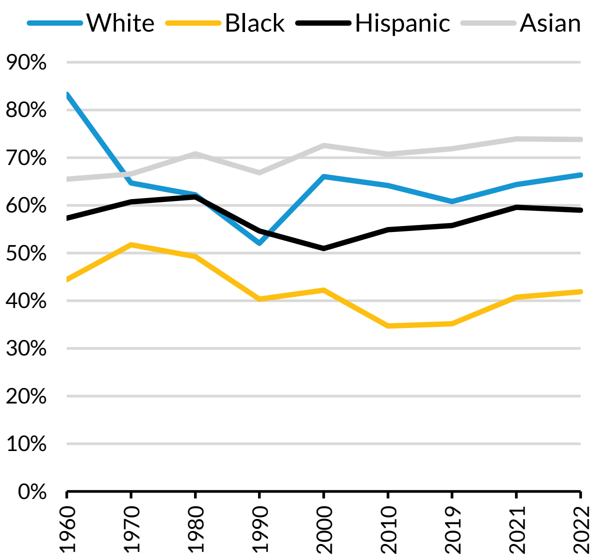
Source: 1960–90 Decennial Census and 2000–22 American Community Survey data.
Notes: I calculate homeownership rates by dividing the total number of homeowners by the total number of households. Households include the total number of both homeowners and renters. I exclude 2020 results because of undersampling.

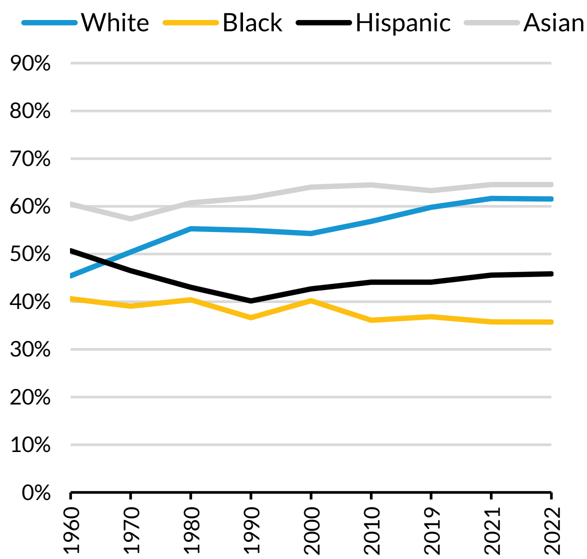
FIGURE A.2

Homeownership Rates, in Select Years, by Race or Ethnicity

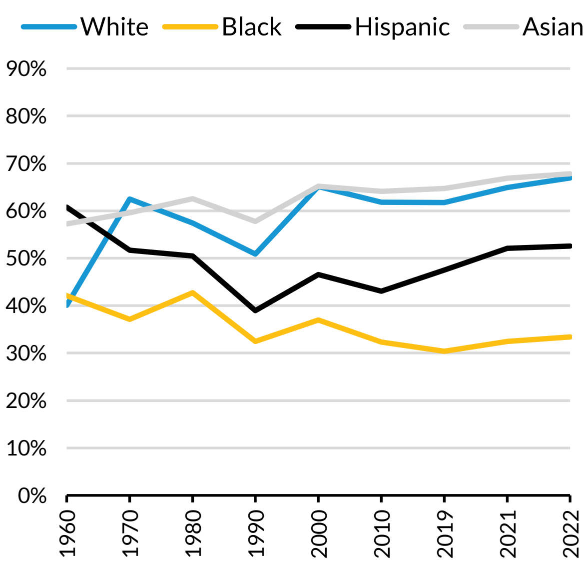
Arizona



California



Nevada



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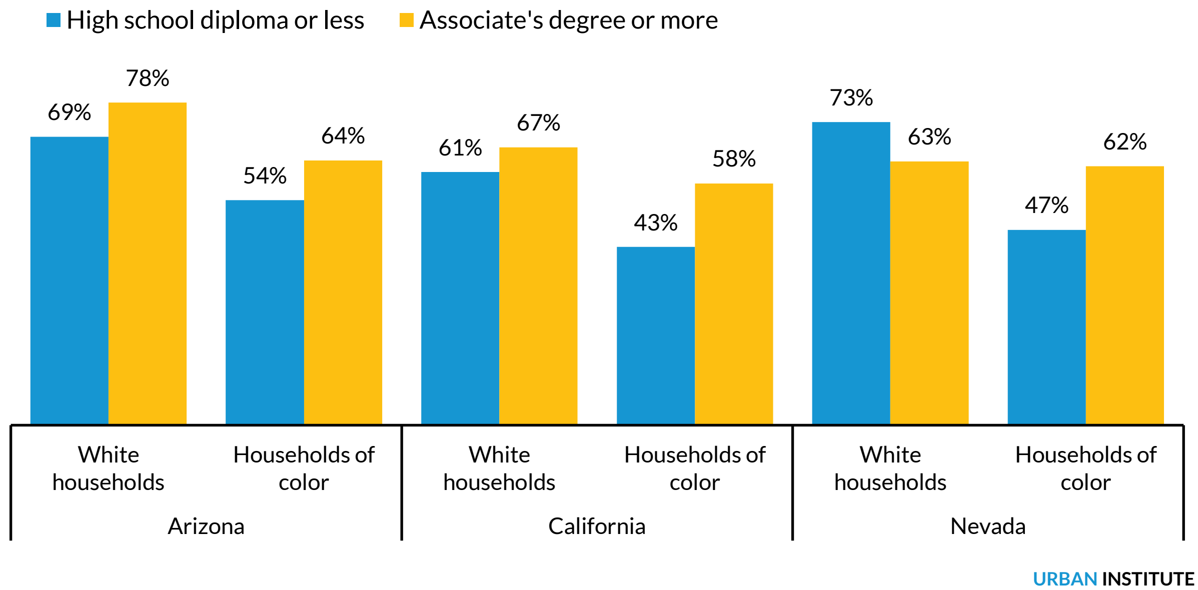
Source: 1960–90 Decennial Census and 2000–22 American Community Survey data.

Notes: I calculate homeownership rates by dividing the total number of homeowners by the total number of households. Households include the total number of both homeowners and renters. I exclude 2020 results because of undersampling.

FIGURE A.3

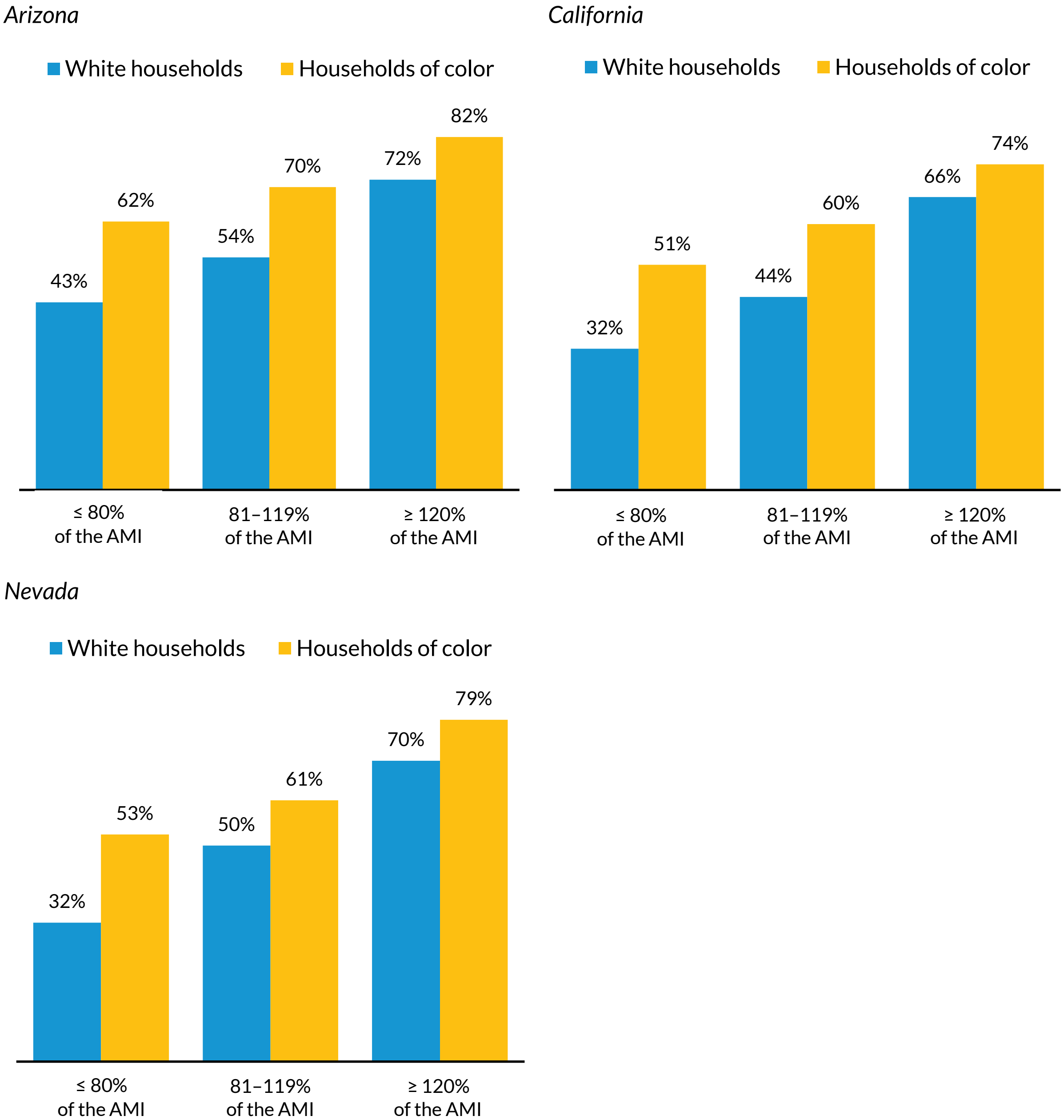
Homeownership Rates, by Educational Attainment



Source: 2022 American Community Survey.
Notes: I calculate homeownership rates by dividing the total number of homeowners by the total number of households. Households include the total number of both homeowners and renters.

FIGURE A.4

Homeownership Rates, by Income Level



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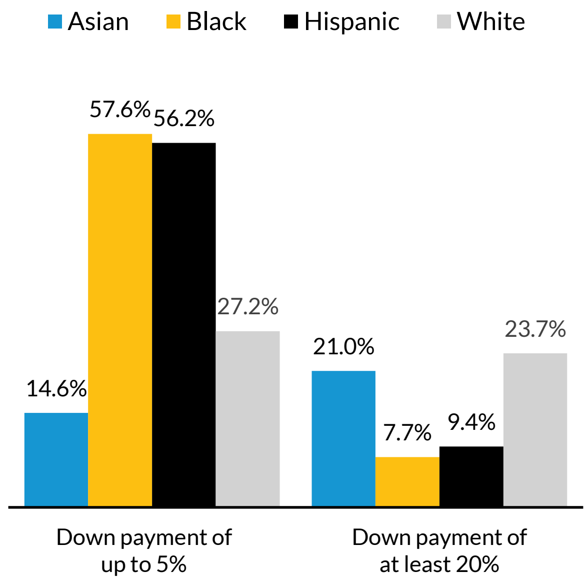
Source: 2022 American Community Survey.
Notes: I calculate homeownership rates by dividing the total number of homeowners by the total number of households. Households include the total number of both homeowners and renters.

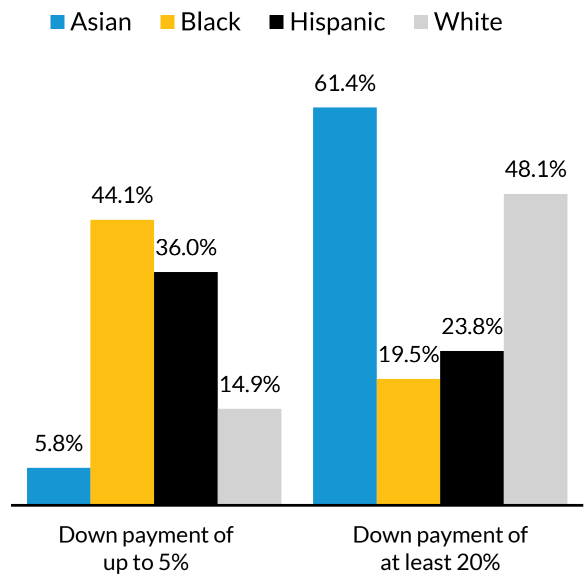
FIGURE A.5

Share of Households Putting 5 and 20 Percent Down in 2022, by Race or Ethnicity

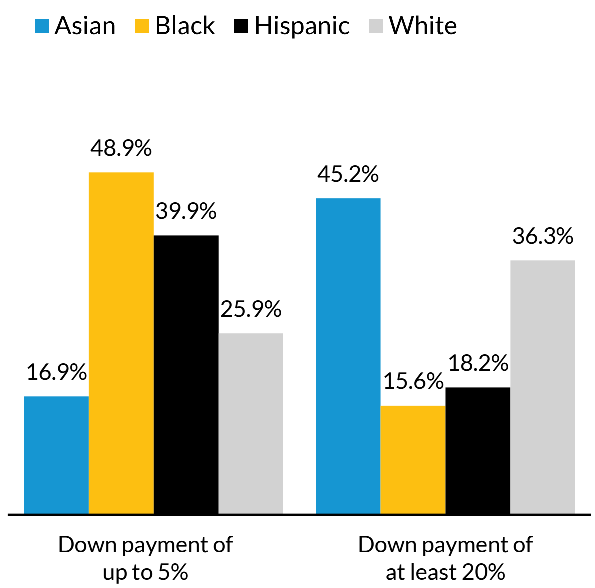
Arizona



California



Nevada



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Source: 2018–22 Home Mortgage Disclosure Act aggregated one-year data.
Notes: Purchase mortgages only. I calculate down payment shares by taking the share of borrowers with loan-to-value ratios below 80 percent for at least 20 percent down and loan-to-value ratios above 95 percent for up to 5 percent down.

Notes

[1] Alanna McCargo, "A Five-Point Strategy for Reducing the Black Homeownership Gap," *Urban Wire* (blog), Urban Institute, February 14, 2019, https://www.urban.org/urban-wire/five-point-strategy-reducing-black-homeownership-gap.

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[6] Equal Credit Opportunity (Regulation B): Special Purpose Credit Programs, 86 Fed. Reg. 3792 (Jan. 15, 2021), 3766.

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