FEDERAL RESERVE BANK
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Supporting Philadelphia's Black Homeowners in the Aftermath of the COVID-19 Crisis

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Introduction

Homeownership remains an important means of building wealth in the United States.[2] Purchasing a home early in adulthood can also lead to a virtuous cycle of accumulation by enabling homeowners to borrow against the value of their home to finance investments in higher education, entrepreneurship, and additional asset acquisition that, in turn, can boost lifetime earnings and capital gains.[3]

Yet throughout the 20th century, discriminatory policies and practices effectively excluded Black Americans from building wealth through homeownership.[4] Even for those able to purchase their own home, holding on to it has often proved just as difficult.

Decades after the passage of the 1968 Fair Housing Act, Black Americans' difficulty in sustaining homeownership through economic shocks and downturns has undermined progress toward closing racial gaps in homeownership and wealth. The COVID-19 pandemic makes it clear that homeownership continues to be far more precarious for Black homeowners in Philadelphia than their White counterparts. The findings presented in this brief point to the importance of improving labor market outcomes and economic mobility and better targeting housing policies to ensure Black homeowners can reap the full benefits of their investment in residential real estate.

The main findings include:

- Homeownership is relatively more expensive for Black homeowners in Philadelphia than it is for White homeowners, largely because of longstanding inequalities in income and employment.
- Black homeowners, who are generally more vulnerable to economic downturns, were disproportionately impacted by the COVID-19 crisis.
- Both short- and long-term support will be necessary to make homeownership more sustainable for Black Philadelphians.

Long-Term Economic and Financial Challenges for Black Homeowners in Philadelphia

While homeownership has historically been more common among Black residents of Philadelphia than among Black residents in the U.S. overall, Black Philadelphians still face a greater risk of losing their homeownership status than their White counterparts. Underlying this precarity are persistent disparities in income and employment.

Figure 1. Household Income and Ownership Costs in Philadelphia by Race-Ethnicity of Householder, 2015–19

	Median household income	Median monthly ownership costs	Median ownership costs as a share of income
White	$77,696	$1,135	16.8%
Black	$47,141	$804	19.7%

Note: Conditional on homeownership. Includes all homeowners, with and without a mortgage.

Source: Authors' calculations using 2015–19 5-year ACS microdata sample from IPUMS USA, University of Minnesota, www.ipums.org.

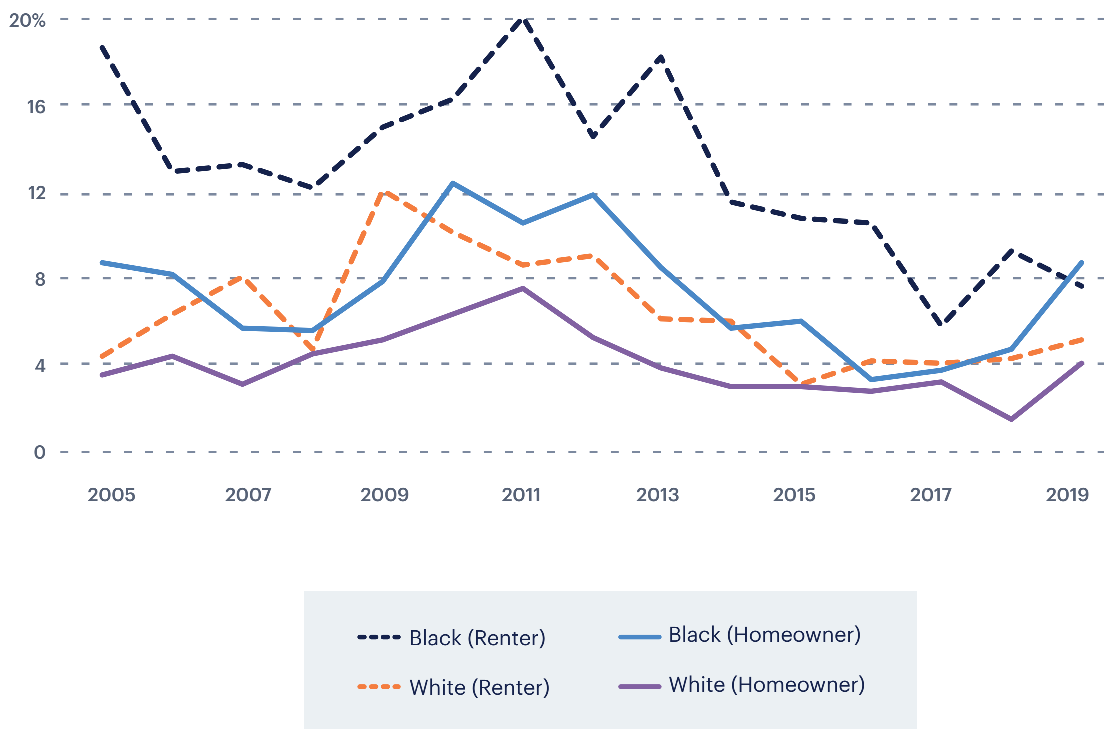
The typical White homeowner in Philadelphia has an annual household income of $77,696, over $30,000 more than a typical Black homeowner. Even though Black homeowners pay about $300 less a month in ownership costs — mortgage payments, property taxes, utilities, insurance premiums — these costs represent a larger share of household income than they do for White homeowners **(Figure 1)**.

Black homeowners' incomes are not only lower but are also more volatile owing to their greater vulnerability to negative labor market shocks.

While both White and Black workers in Philadelphia experienced elevated unemployment rates during the Great

Figure 2. Unemployment Rate by Tenure and Race-Ethnicity of Householder in Philadelphia, 2005–2019

Unemployment rate by tenure Philadelphia, 2005-2019



Source: Authors' calculations using 1-year 2005–19 ACS microdata samples from IPUMS USA, University of Minnesota, www.ipums.org.

Figure 3. Black Homeownership and Employment Conditions in Philadelphia by Neighborhood Black Population Share, 2015–19

Black share of census tract	Share of Black homeowners	Unemployment rate	Commute time more than 45 minutes	Residents with a four-year college degree	Without in-home internet access
Less than 25%	9%	6.6%	24%	38%	18%
25% to 50%	9%	10.3%	28%	27%	24%
50% to 75%	19%	11.8%	31%	25%	27%
More than 75%	63%	13.0%	33%	16%	35%

Note: Black homeowners include Hispanic Black householders. Unemployment rate determined for individuals 16 and older in the labor force. Commute time determined for the employed population not working from home. Education determined for individuals 25 and older. Internet status determined for all households. Households without in-home access lack either a computer or an internet subscription.

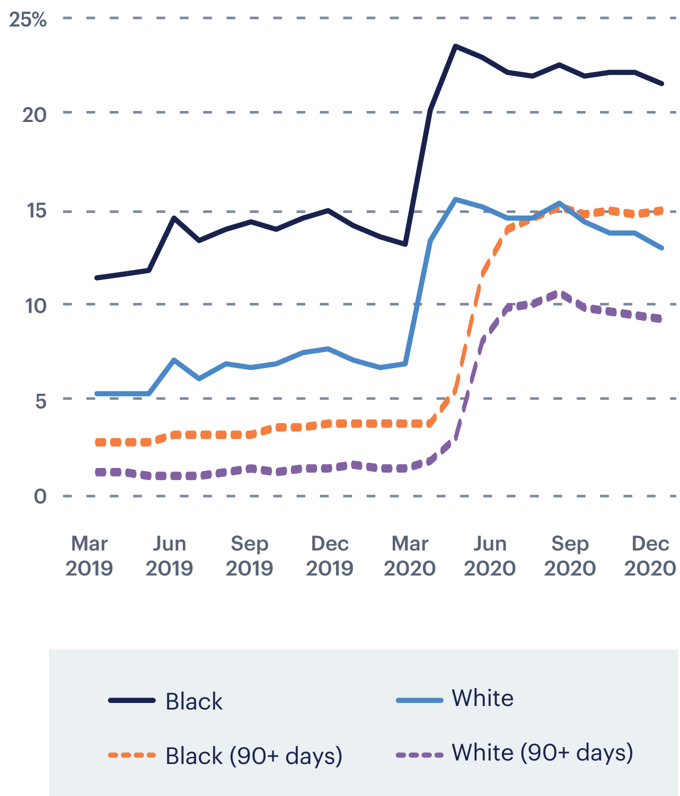
Source: Authors' calculations using 2015–19 5-year ACS data from Social Explorer.

Recession, for most of the 2007–2014 period, Black homeowners' unemployment rate exceeded that for both White homeowners and White renters. In only two of the last 15 years was the White-Black unemployment rate gap among homeowners smaller than 1 percentage point; in the depths of the recession, it had widened to more than 6 percentage points **(Figure 2)**.

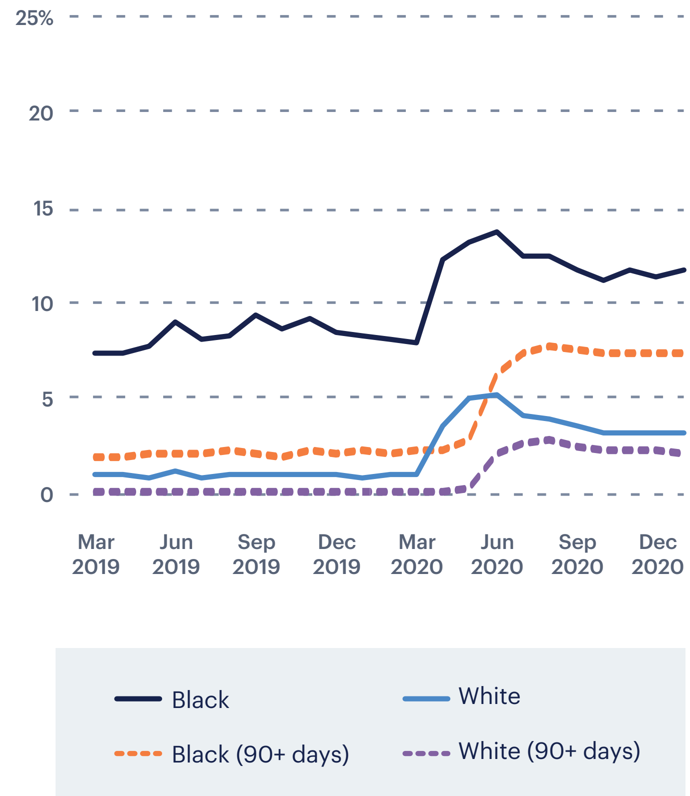
Black homeowners are also segregated in areas of the city where access to regional employment opportunities appears to be more constrained **(Figure 3)**. In Philadelphia, over 80 percent of Black homeowners live in a neighborhood that is majority Black. In those neighborhoods, residents are less likely to be employed, and among those who are, nearly one-third must commute more than 45 minutes to their job. Less than one-quarter have a four-year college degree, which in and of itself presents a major obstacle to accessing high-quality employment anywhere. Low neighborhood educational attainment also means that many Black Philadelphians are excluded from social networks crucial for professional mentorship, gathering information about job openings, and soliciting referrals.[5] Limited in-home internet access further handicaps Black job seekers in segregated neighborhoods, with online searches being the best alternative to personal and professional networks for finding employment opportunities.[6]

Figure 4. Delinquency Rate in Philadelphia by Race-Ethnicity and Loan Type, March 2019–January 202

Delinquency rate for FHA loans in Philadelphia, March 2019–January 2021



Delinquency rate for conventional loans in Philadelphia



Source: Authors' calculations using Black Knight McDash, Equifax Credit Risk Insight Servicing and Black Knight McDash data (CRISM), and Confidential Home Mortgage Disclosure Act (CHMDA) data. Race-ethnicity data is from HMDA.

Note: Restricted to active first-lien home purchase loans.

Altogether, longstanding labor market inequalities and geographic barriers to employment access continue to make homeownership harder to sustain for Black Philadelphians.

The Pandemic Has Made Black Homeownership Even More Precarious in Philadelphia

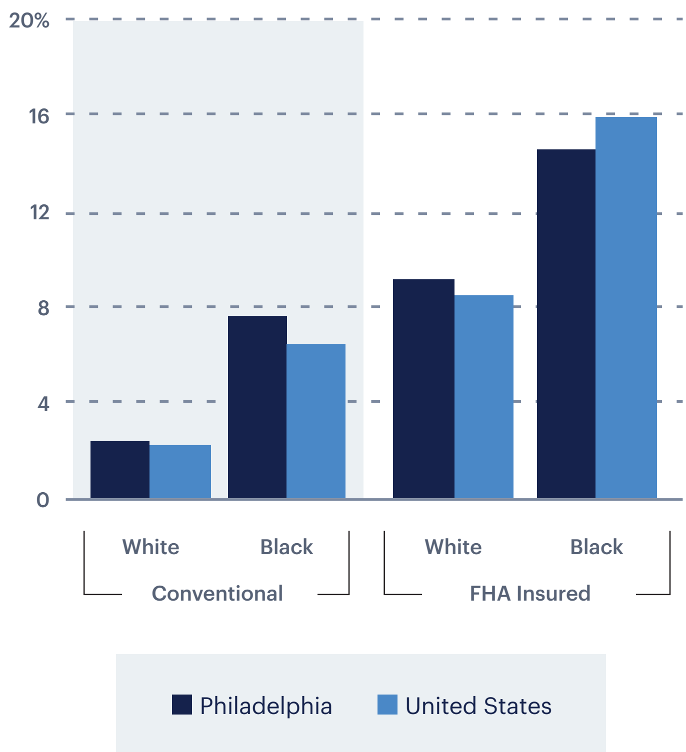
These initial conditions put Black homeowners in Philadelphia at a considerable disadvantage when faced with the recession brought on by the COVID-19 pandemic. In the Third District states of Pennsylvania, New Jersey, and Delaware, the employment rate among Black workers with at least some college education fell by over 10 percentage points between 2019 and 2020, and it fell 20 points or more for those with at most a high school degree. White men and women with at most a high school diploma experienced a 4 and 10 percentage point reduction in employment, respectively.[7] This large negative income shock severely impacted Black homeowners' ability to continue making their monthly mortgage payments.

Between March 2020 and May 2020, the delinquency rate among Black mortgage holders in Philadelphia jumped from 12 percent to 20 percent. By January 2021, 19 percent were still behind on their payments — 13 percent for over 90 days. In contrast, not more than 6 percent of White mortgage holders started 2021 behind on their payments for any length of time.

The roughly 60 percent of Black mortgage holders in the city with an FHA-insured loan have been especially impacted by the pandemic recession, with these loans typically going to lower-income first-time homeowners who are unable to qualify for conventional mortgage products. In January 2021, over 20 percent of Black mortgage holders with FHA-insured loans were behind on their payments. While their delinquency rate in March 2020 was only 5 percentage points higher than the rate for Black homeowners with conventional mortgages, by January 2021, that gap had doubled **(Figure 4)**.

Figure 5. Severe Delinquency Rate by Race-Ethnicity and Loan Type in Philadelphia and the U.S., January 2021

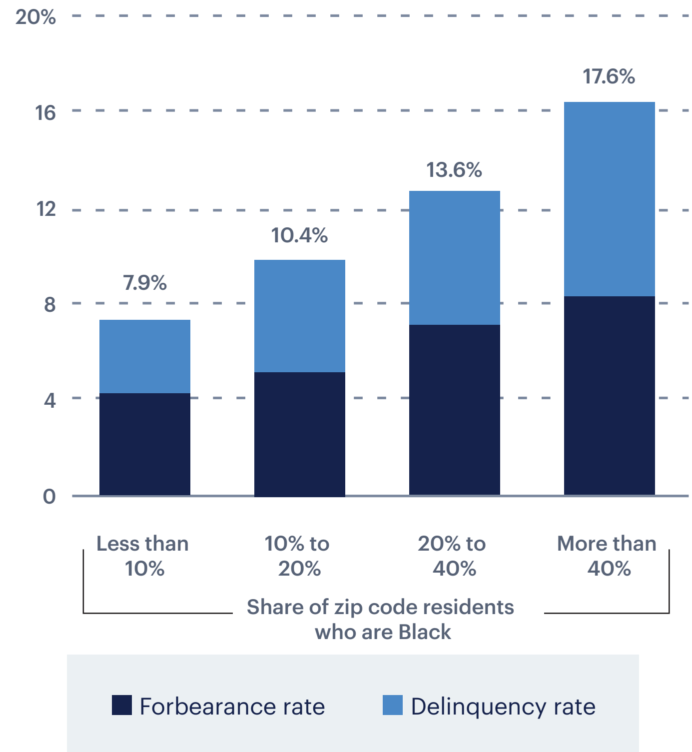
Delinquency rate (90+ days) by loan type in Philadelphia & U.S., January 2021



Source: Authors' calculations using Black Knight McDash, Equifax Credit Risk Insight Servicing and Black Knight McDash data (CRISM), and Confidential Home Mortgage Disclosure Act (CHMDA) data. Race-ethnicity data is from HMDA. Restricted to active first-lien home purchase loans.

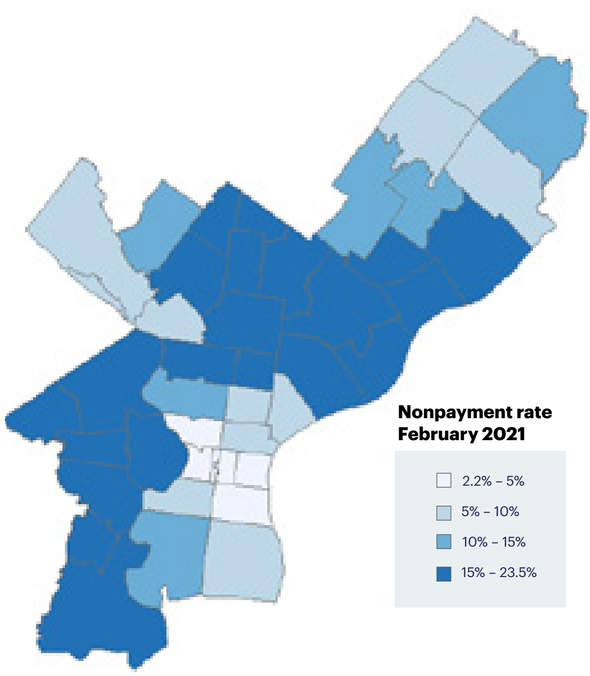
Figure 6. Forbearance and Delinquency Rates in Philadelphia by Neighborhood Black Resident Share, February 2021

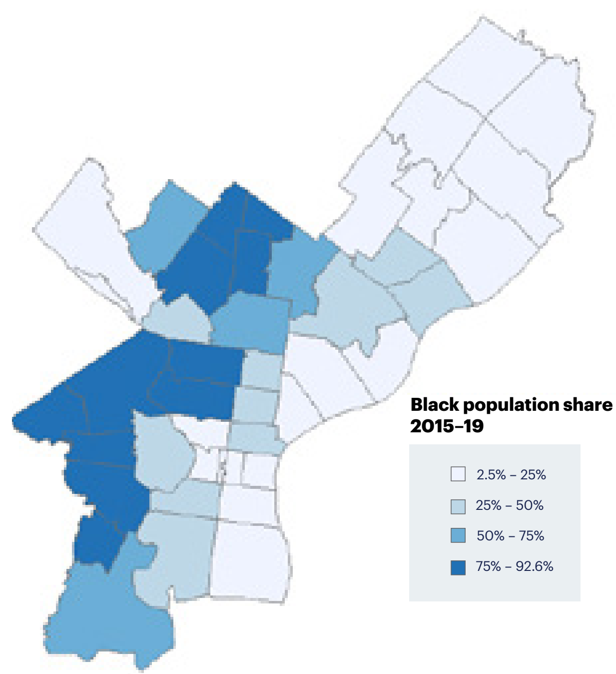
Forbearance and delinquency rates in Philadelphia, February 2021



Source: Mortgage Analytics and Performance Dashboard from the Federal Reserve Bank of Atlanta.

Figure 7. Black Population Share and Nonpayment Rate by Zip Code in Philadelphia





Source: Mortgage Analytics and Performance Dashboard from the Federal Reserve Bank of Atlanta

Although less likely to be more than three months behind on their monthly mortgage payments, Black Philadelphians with conventional loans nevertheless had higher delinquency rates than their counterparts nationally, while the opposite was true for Black Philadelphians with an FHA-insured home loan.

The racial disparity in the burden of mortgage debt between Black and White homeowners is made even clearer by looking across neighborhoods at the geographic concentration of nonpaying mortgages.

Nonpaying mortgages include those for which borrowers are delinquent on their monthly payments or in a forbearance program. Throughout the pandemic, mortgage holders have been able to seek forbearance relief — a temporary payment suspension — without having to prove financial hardship.[8] In zip codes where less than 10 percent of residents are Black, only 8 percent of mortgages were nonpaying at the start of 2021. Zip codes with Black majorities in the city's northern and western neighborhoods had average nonpayment rates of nearly 18 percent. Neighborhoods with relatively large low-income and Hispanic populations in the eastern part of north Philadelphia also had elevated rates of nonpayment.

Evidence of Black workers' disproportionate exposure to the pandemic recession and Black mortgage holders' continued inability to meet their monthly payments suggest the importance of providing better targeted support as the labor market recovers.

Direction for Further Policy-Relevant Research

These findings point to the need to address both the immediate needs of financially distressed Black homeowners in Philadelphia and the longstanding challenges that make Black homeowners especially vulnerable to economic shocks. Both short-term support and longer-term solutions are needed to make homeownership more sustainable for Black Philadelphians.

Federal, state, and local governments have put a series of programs in place to prevent troubled mortgage borrowers from losing their home, such as the forbearance program under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the foreclosure moratorium for federally backed mortgages. The American Rescue Plan's nearly $10 billion Homeowner Assistance Fund has also enabled states to target payment relief to their most financially insecure homeowners. As many state and federal relief programs near their expiration, more research is needed to understand the unique challenges that vulnerable homeowners, many of whom are Black, face to help policymakers better target additional policy interventions.

Improving the sustainability of Black homeownership also necessarily means addressing more fundamental causes of their precarity. Unless their household finances are made more resilient to economic shocks, Black homeowners will remain vulnerable to disruption by future crises. Doing so will require systematically dismantling barriers to economic opportunity rooted in structural racism and residential segregation.

Appendix: Data and Methods

This research brief draws on several sources of data.

Figures 1 and 3 and Figure 2 use 5-year and 1-year American Community Survey (ACS) microdata samples, respectively, from the Integrated Public Use Microdata Series (IPUMS-USA) database hosted by the University of Minnesota.

Figures 4 and 5 were produced by merging confidential Home Mortgage Disclosure Act (HMDA) data with the Residential Mortgage Servicing database from Black Knight McDash and the Equifax Credit Risk Insight Servicing and Black Knight McDash data (CRISM) database. The former includes the anonymized portfolios of the largest mortgage servicers in the United States and covers roughly two-thirds of installment-type loans in the residential mortgage market. CRISM matches anonymized consumer credit bureau data to the McDash mortgage servicing data. Mortgages either paid off or transferred to a different servicer were excluded from delinquency rate calculations. Race-ethnicity data are from HMDA.

Figures 6 and 7 use publicly available data provided to the authors by the creators of the Mortgage Analytics and Performance Dashboard (MAPD) hosted by the Federal Reserve Bank of Atlanta. Zip code–level demographic information is based on 2014–18 5-year ACS data and nonpayment rates on Black Knight's McDash Flash daily mortgage performance data. The shapefile used to produce the zip code maps in Figure 8 was retrieved from the City of Philadelphia's OpenDataPhilly portal.

Endnotes

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2 Laurie Goodman and Christopher Mayer, "Homeownership and the American Dream," *Journal of Economic Perspectives*, 2018. Available at www.urban.org/research/publication/homeownership-and-american-dream.

3 Michael Neal, Jung Hyun Choi, and John Walsh, *Before the Pandemic, Homeowners of Color Faced Structural Barriers to the Benefits of Homeownership*, Washington, D.C.: Urban Institute, 2020. Available at www.urban.org/research/publication/pandemic-homeowners-color-faced-structural-barriers-benefits-homeownership.

4 Richard Rothstein, *The Color of Law: A Forgotten History of How Our Government Segregated America*, New York: Liveright, 2017.

5 Martha Ross, Kristin Anderson Moore, Kelly Murphy, et al., *Pathways to High-Quality Jobs for Young Adults*, Washington, D.C.: Brookings Institution, 2018. Available at www.brookings.edu/research/pathways-to-high-quality-jobs-for-young-adults/.

6 Aaron Smith, *Searching for Work in the Digital Era*, Washington, D.C.: Pew Research Center, 2015. Available at www.pewresearch.org/internet/2015/11/19/searching-for-work-in-the-digital-era/.

7 Keith Wardrip, "Who's Employed in the Early Months of the COVID-19 Recession? An Analysis by Education, Race, Ethnicity, and Gender," *COVID-19: Equity In Recovery*, Federal Reserve Bank of Philadelphia, January 2021. Available at www.philadelphiafed.org/community-development/workforce-and-economic-development/whos-employed-in-the-early-months-of-the-covid19-recession.

8 At the beginning of the pandemic, the ease with which homeowners were able to participate in forbearance programs meant that many forborne mortgages were also still current on payments. Being in forbearance, though, ultimately became a hinderance to homeowners wanting to refinance and many opted to exit. By the end of 2020, few forborne mortgages were still current on their payments. See Xudong (Sean) An, Larry Cordell, Liang Geng, and Keyoung Lee, "Inequality in the Time of COVID-19: Evidence from Mortgage Delinquency and Forbearance," Federal Reserve Bank of Philadelphia Working Paper 21-09, February 2021. Available at www.philadelphiafed.org/consumer-finance/mortgage-markets/inequality-in-the-time-of-covid-19-evidence-from-mortgage-delinquency-and-forbearance.