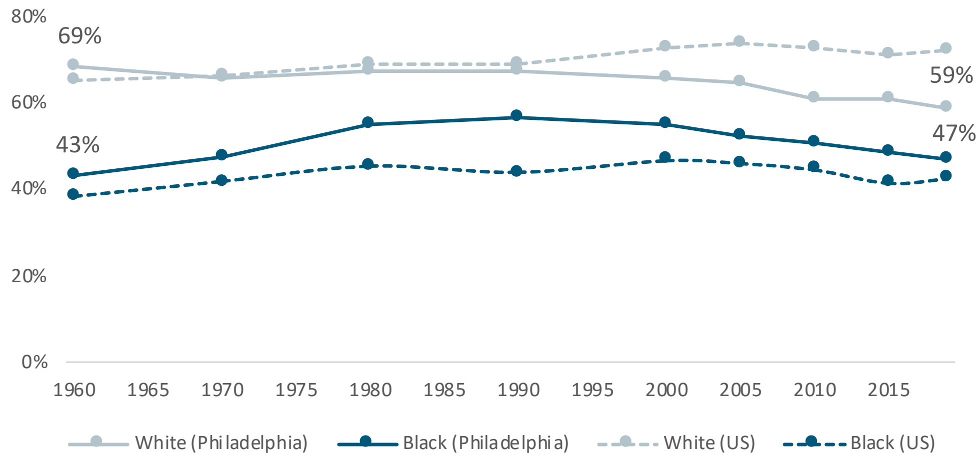
What’s Behind the Racial Homeownership Gap in Philadelphia?

Jacob Whiton, Theresa Singleton, Lei Ding, December 2021[1]

Introduction

The Black homeownership rate has persistently lagged the White homeownership rate in the city of Philadelphia and has steadily declined over the past 30 years. As a result, Black Philadelphians have been less able to build household wealth through homeownership and realize other social and economic benefits from homeownership. This gap was partly the legacy of historical discrimination, but even today, Black residents still face social, economic, and financial barriers to homeownership. This brief looks at changes in Philadelphia’s Black homeownership rate over time and discusses several potentially important factors perpetuating racial disparities in homeownership in the city.

Figure 1. Homeownership Rate in Philadelphia and in the U.S. by Race-Ethnicity, 1960–2019



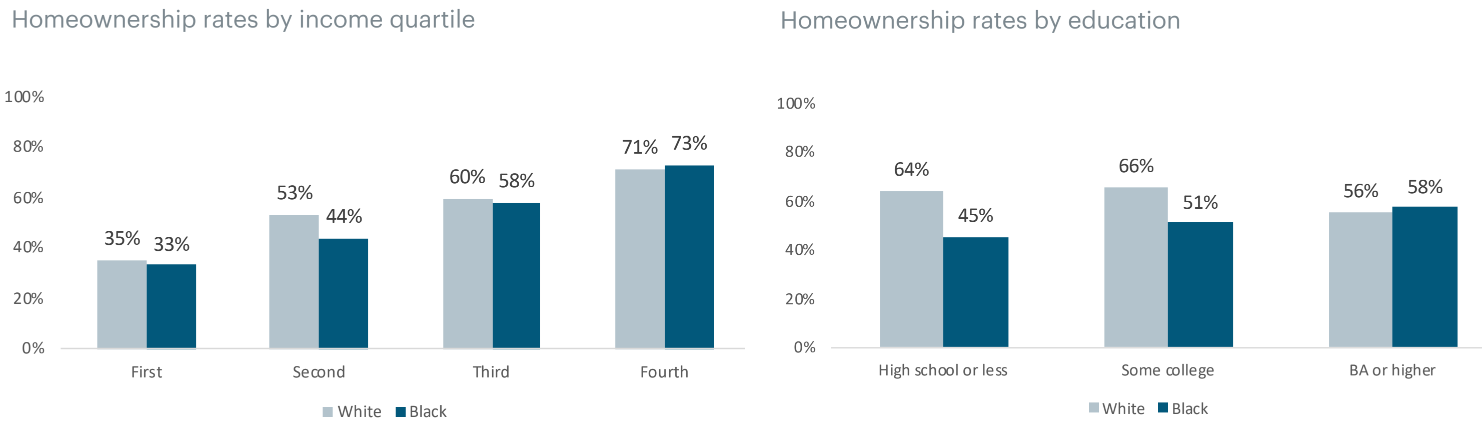
Note: Tenure determined for non-Hispanic White and Black householders.

Source: Authors’ calculations using 1960–2019 decennial Census and 1-year ACS microdata samples from IPUMS USA, University of Minnesota, www.ipums.org.

Main findings:

- The Black-White homeownership gap in Philadelphia is smaller than in the U.S. overall, but little progress has been made in closing it over the last 30 years; meanwhile, Black homeownership has been declining.
- Lack of access to mortgage credit remains a key barrier to narrowing the White-Black homeownership gap in the city.
- Additional efforts are needed to address the historical and structural barriers to homeownership in neighborhoods with concentrated Black populations.

Figure 2. Homeownership Rates in Philadelphia by Income, Education, and Race, 2015–19



Note: Income quartiles defined at the city level. Homeownership rates by educational attainment restricted to householders ages 25 and older.

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

Declining Black Homeownership in Philadelphia

Philadelphia has long had a smaller Black-White homeownership gap than the nation overall. Unlike other major cities, where dense multifamily rental housing was typically developed for low-income households and racial minorities, Philadelphia boasts a large stock of single-family homes intended for homeowners. When the city's population began declining in the 1960s because of suburbanization and White flight, excess housing supply pushed down prices and put homeownership within reach for many working-class households.[2]

Between 1960 and 1990, low home prices, as well as the adoption of laws that prohibit racial discrimination in the housing market, made possible a considerable expansion in homeownership among middle- and upper-income Black households in the city. In those 30 years, non-Hispanic Black residents saw a 13-percentage-point increase in their rate of homeownership, reaching a 50-year high of 57 percent and narrowing the gap with non-Hispanic White households to just 10 percentage points.

Since 1990, though, the homeownership rate for both groups has been declining, such that in 2019, the Black-White homeownership gap was slightly wider than it was 30 years ago. The housing market crash of 2007 disproportionately impacted Black homeowners, who were far more likely than White homeowners to hold a subprime mortgage. Many majority-Black neighborhoods experienced a large spike in foreclosures during the recession.[3] After 2010, the Black homeownership rate in Philadelphia fell below 50 percent for the first time since the 1970s and has since continued to decline.

Within the city of Philadelphia, the racial homeownership gap is largest among lower middle-income residents and those without a bachelor's degree. Black households making between $19,000 and $45,000 a year had a significantly lower homeownership rate than White households (see second income quartile in Figure 2). Likewise, the 80 percent of Black households without a four-year college degree were much less likely than their similarly educated White counterparts to own their own home.

There is a long-standing regional pattern of residential segregation by race in the Philadelphia metropolitan area. A mere 12 percent of White metro homeowners live in the city itself, compared with 53 percent of Black homeowners. While high-income, college-educated Black householders in the city of Philadelphia are as likely to own homes as their White counterparts, this is not reflective of the region as a whole, since higher-income White families are more likely to purchase homes in the suburbs. In the metro area, the racial homeownership gap persists at all levels of income and education.[4]

Barriers to Closing the Racial Homeownership Gap

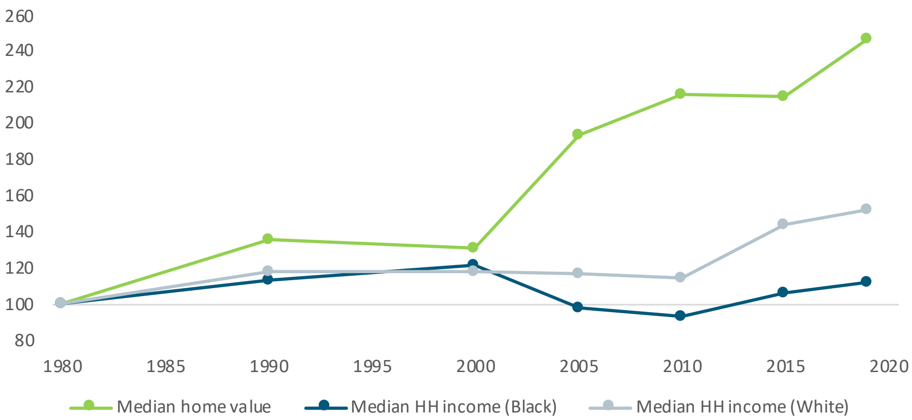
Given this context, the remainder of the brief explores the trends and structural barriers that likely contributed to the racial homeownership gap between White and Black Philadelphians over the last 30 years.

Housing Affordability

While home values remain relatively low in Philadelphia — the 2019 median home value in the city was $183,200, compared

Figure 3. Growth in Real Home Values and Household Incomes in Philadelphia by Race-Ethnicity, 1980–2019

Index (1980=100)



Note: Nominal home and household income values deflated using the annual CPI for the Philadelphia-Camden-Wilmington metropolitan area.

Source: Authors' calculations using 1980–2019 decennial census and 1-year ACS microdata samples from IPUMS-USA, University of Minnesota, www.ipums.org.

with $240,500 in the nation[5] — falling homeownership rates have coincided with a period of rapid home value appreciation and more sluggish income growth for Black households.

Between 1980 and 1990, and even more dramatically after 2000, growth in home values and household incomes diverged (Figure 3). In the last 20 years, the inflation-adjusted median home value in Philadelphia nearly doubled, while the median household income among Black residents declined. The median home value in the city jumped from 2.5 times the median income of Black households to more than 5 times. White Philadelphians, too, saw a more modest increase in the home price–income ratio, although their incomes stagnated from 1990 to 2010. Of course, Black and White households may focus on slightly different housing submarkets; declining affordability could be a citywide problem, putting homeownership out of reach for low- and moderate-income residents, Black and White, as reflected by the decline in homeownership rates for both racial groups in Figure 1. An expansion in the supply of affordable housing would therefore disproportionately benefit potential homeowners with lower incomes.

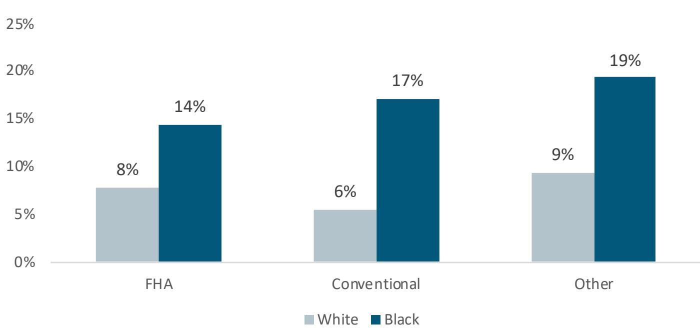
Credit Access

On top of income stagnation and rapid home price growth, access to mortgage credit poses another challenge to would-be Black homeowners in the city. In 2020, Black mortgage applicants were 2.7 times more likely to be denied by lenders than White applicants.

While Black mortgage applicants were denied at higher rates than White applicants in 2020, regardless of loan type, this disparity was particularly large in the market for conventional mortgage products, in which Black applicants' denial rate was about three times higher than that of White applicants. In contrast, Black applicants were nearly twice as likely as White applicants to be denied for an FHA-backed mortgage.

Having a high debt-to-income ratio was the most common reason for both Black and White applicants to be denied a mortgage, contributing to roughly 30 percent of denials, regardless of race (Figure 5). However, Black mortgage ap-

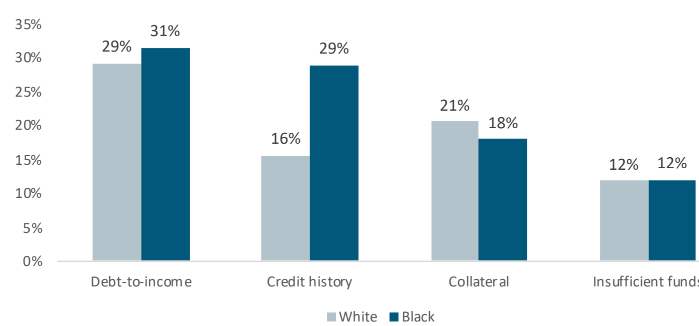
Figure 4. Denial Rates by Loan Type in Philadelphia by Race, 2020



Note: Restricted to first lien home purchase loan applications originated, approved but not accepted, or denied.

Source: Authors' calculations using 2020 public HMDA data.

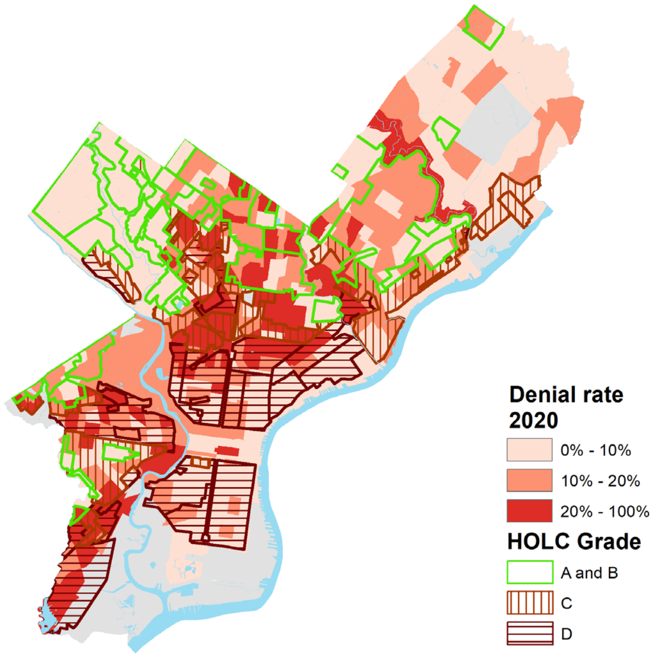
Figure 5. Share of Denied Mortgage Applications by Reason for Denial in Philadelphia by Race, 2020



Note: Up to four reasons are given for each denied application. Restricted to first lien home purchase loan applications that were denied.

Source: Authors' calculations using 2020 public HMDA data.

Figure 6. Mortgage Denial Rates and HOLC Assessment Grades by Census Tract, 2020



Note: Restricted to first lien home purchase loan applications either originated or denied.

Source: Author's calculations using 2020 public HMDA data and Nelson et al.'s Mapping Inequality project.

Figure 7. Mortgage Denial Rate in Philadelphia by Tract HOLC Grade and Race, 2020

	Census tract HOLC grade		
	A&B	**C**	**D**
White	6.5%	6.6%	5.1%
Black	13.6%	17.3%	17.1%

Note: Restricted to first lien home purchase loan applications originated, approved but not accepted, or denied.

Source: Authors' calculations using 2020 public HMDA data.

plicants' limited credit histories and low credit scores seem to be among the primary causes of the Black-White homeownership gap.[6] In Philadelphia, Black applicants were much more likely than White applicants to be denied because of their credit history. Credit history was cited as a denial reason for 29 percent of rejected Black applicants, significantly higher than the 16 percent among denied White applicants. Limited collateral and insufficient funds for a down payment or closing costs also presented barriers to accessing mortgage credit, but Black and White applicants were also denied at similar rates for those reasons in 2020.

Spatial Patterns in Credit Access and Barriers to Homeownership

Historically, Black Americans and other racial minority groups were blocked from homeownership through a variety of different discriminatory housing policies.[7] For example, as part of the federal government's response to the Great Depression of the 1930s, the Home Owners Loan Corporation (HOLC) was tasked with creating a standardized home appraisal system to value mortgages owned or insured by the government. The HOLC produced neighborhood-level maps for hundreds of cities, color-coded to reflect the riskiness of lending in each area. These grades explicitly considered large and growing Black and immigrant populations a sign of deteriorating neighborhood quality, reflecting and leading to the practice known as *redlining*, whereby segregated minority neighborhoods colored in red were excluded from access to federally insured mortgages.[8]

Many redlined neighborhoods in Philadelphia continue to struggle economically, but the city has also seen considerable neighborhood change in the last half-century.[9] Center City neighborhoods that received a D grade have some of the most highly valued housing stock and lowest mortgage denial rates today. And in upper North Philadelphia, prospective homebuyers in some previously A- and B-graded neighborhoods now have among the highest mortgage denial rates.

However, mortgage denial rates for Black applicants were significantly higher in neighborhoods previously graded as C or D, and the racial gap in denial rates also tends to be larger in those neighborhoods. While more research is needed to understand why such a pattern has persisted over time, the results suggest Black borrowers continue to have great difficulty in accessing mortgage credit in these previously redlined neighborhoods.

As Figure 8 shows, while the geography of racial segregation has changed a lot in the last half-century, mortgage denial rates for both White and Black applicants are higher among those attempting to acquire property in parts of the city with higher shares of Black residents. The composition of potential homebuyers likely explains some of the difference in denial rates, as borrowers with lower incomes and poorer credit sort into devalued neighborhoods — yet these are some of the only remaining places in the city affordable to most Black homebuyers.

Between 2015 and 2019, the median home value in neighborhoods that were less than 25 percent Black was $215,900, compared with just $101,700 in neighborhoods that were at least three-quarters Black. Consequently, more than 60 percent of all Black homeowners reside in one of the latter neighborhoods and only 9 percent in one of the former.

More research is needed to understand whether these neighborhoods have equal access to credit and banking services, and to evaluate whether more targeted government intervention may be appropriate if such a potential market failure exists. Currently, the Community Reinvestment Act (CRA), a regulation designed to encourage depository institutions to meet the credit needs of underserved communities, examines banks' lending services and investments in low- and moderate-income neighborhoods, but it does not do the same for neighborhoods where residents are disproportionately people of color.

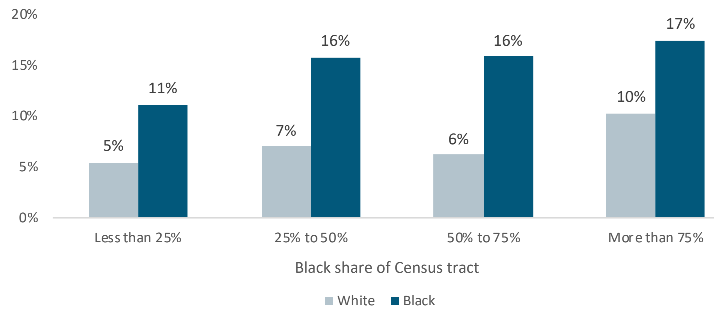
Concluding Remarks

In Philadelphia, policymakers and policy researchers trying to better understand how to dismantle barriers to homeownership among Black residents should focus their efforts on the underlying factors identified in this brief, namely, low and falling incomes, limited access to mortgage credit, and other historical and structural barriers.

All have deep historical roots, and therefore, tackling Philadelphia's racial homeownership gap will require a mix of both short- and long-term interventions. Better targeted policies at the federal, state, and local levels are needed. For instance, Fannie Mae's recent decision to allow lenders to consider applicants' rental payments in evaluating credit risk would likely disproportionately benefit Black borrowers with no or limited credit histories.[10] In the short term, policies adopted to protect consumers' credit ratings if they sought repayment relief during the pandemic can help ensure that the racial homeownership gap doesn't widen as a result of pandemic-related disruptions.[11]

A vibrant financial ecosystem that supports lower-income households' and racial minorities' access to credit and homeownership is important. Policies should also target the structural barriers in the labor and housing markets that create unique disadvantages for Philadelphia's aspiring Black homeowners.

Figure 8. Mortgage Denial Rate in Philadelphia by Race, 2020



Note: Restricted to first lien home purchase loan applications originated, approved but not accepted, or denied.

Source: Authors' calculations using 2020 public HMDA data.

Figure 9. Home Values, Homeownership, and Income by Black Share of Tract in Philadelphia, 2015–19

Black share of census tract	Median home value	Share of Black homeowners	Median household income
Less than 25%	$215,900	9%	$60,000
25% to 50%	$132,000	9%	$38,906
50% to 75%	$125,000	19%	$40,536
More than 75%	$101,700	63%	$32,328

Note: Average credit score conditional on applicant having a credit score.

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

Appendix: Data and Methods

Figures 1 and 3 use decennial census and 1-year American Community Survey (ACS) microdata samples from the Integrated Public Use Microdata Series (IPUMS-USA) database hosted by the University of Minnesota. Nominal median home values and median household incomes in Figure 3 were adjusted for inflation using the consumer price index for the Philadelphia-Camden-Wilmington metropolitan area provided by the Bureau of Labor Statistics.

Figures 4, 5, 6, 7, and 8 were produced using publicly available data from the Home Mortgage Disclosure Act (HMDA), which includes the portfolios of the largest mortgage servicers in the United States and covers roughly two-thirds of installment-type loans in the residential mortgage market.

The tract-level shapefile for Figure 6 was retrieved from the City of Philadelphia's OpenDataPhilly portal and digitized HOLC-graded neighborhood boundaries from Robert K. Nelson, LaDale Winling, Richard Marciano, Nathan Connolly, and others' *Mapping Inequality* project hosted by the University of Richmond's *American Panorama*. For calculating denial rates by HOLC grade and race, Figure 7 uses Helen C.S. Meier and Bruce C. Mitchell's *Historic Redlining Scores for 2010* and *2020 U.S. Census Tracts* distributed by the Inter-university Consortium for Political and Social Research (ICPSR) at the University of Michigan. Meier and Mitchell crosswalked HOLC neighborhoods to census tracts, assigning each tract a risk score based on the average HOLC grade weighted by land area.

Figure 9, along with Figure 2, is also based on data from the 2015–19 5-year pooled ACS sample. Person-level data for Figure 2 were retrieved from IPUMS-USA, and tract-level data for Figure 9 are from Social Explorer.

Endnotes

[1] The authors thank Keith Wardrip and Davin K. Reed for their helpful comments. The authors also thank Alaina G. Barca for her support. The views expressed here are those of the authors and do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

[2] See Susan Warner, *Homeownership in Philadelphia: On the Decline*, Philadelphia: The Pew Charitable Trusts, 2014. Available at www.pewtrusts.org/~/media/assets/2014/07/pri-homeownership-report_final.pdf

[3] See Ira Goldstein and Dan Urevick-Ackelsberg, *Subprime Lending, Mortgage Foreclosures, and Race: How Far Have We Come and How Far Have We to Go?* Philadelphia: Reinvestment Fund, 2008. Available at www.reinvestment.com/research-publications/subprime-lending-mortgage-foreclosures-and-race-how-far-have-we-come-and-how-far-have-we-to-go/.

[4] In the Philadelphia-Camden-Wilmington metropolitan area overall, the Black-White homeownership rate gap among those in the top half of the household income distribution was 12 percentage points, and it was over 16 percentage points for those with a college education.

[5] Median home values are based on 2019 1-year American Community Survey data.

[6] See Jung Hyun Choi, Alanna McCargo, Michael Neal, et al., *Explaining the Black-White Homeownership Gap: A Closer Look at Disparities Across Local Markets*, Washington, D.C.: Urban Institute, 2019. Available at www.urban.org/sites/default/files/publication/101160/explaining_the_black-white_homeownership_gap_a_closer_look_at_disparities_across_local_markets_0.pdf.

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

[8] The Federal Housing Administration (FHA), also founded in the 1930s, also adopted similarly discriminatory standards to determine where it was willing to insure home mortgages. See "New Evidence on Redlining by Federal Housing Programs in the 1930s," by Fishback et al., available at https://www.nber.org/papers/w29244.

[9] See Bruce Mitchell, *HOLC "Redlining" Maps: The Persistent Structure of Segregation and Economic Inequality*, Washington, D.C.: National Community Reinvestment Coalition, 2018. Available at ncrc.org/holc/.

[10] For information on the update to Fannie Mae's automated mortgage underwriting system, see "Fannie Mae Introduces New Underwriting Innovation to Help More Renters Become Homeowners."

[11] See Consumer Financial Protection Bureau, "CFPB Issues Credit Reporting Guidance During COVID-19 Pandemic," press release, April 1, 2020. Available at www.consumerfinance.gov/about-us/newsroom/cfpb-issues-credit-reporting-guidance-during-covid-19-pandemic/.