

A Tenuous Future for African American Homeownership in California

Financial Institutions Complicit in Perpetuating the Minority Homeownership Gap

*An Analysis of the Lending Performance of the Top 10 Banks in California
in Lending to Potential African American Homebuyers, Based on 2006
HMDA Data*

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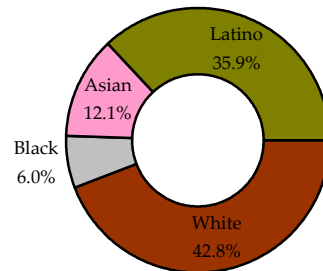
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INTRODUCTION

For over 40 years homeownership rates have increased across the nation, except in California, where they have been declining steadily since 1960.¹ Although homeownership rates for minorities have been increasing due to the gradual elimination of racial covenants and overt discrimination, minorities continue to be hard hit by the increasing cost of achieving homeownership in California. Median home prices in California are currently two-and-a-half times the national median price.

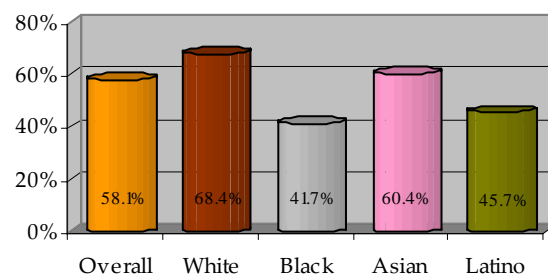
Racial Makeup of California Population



As of September 2007, a household seeking to purchase the median-priced home in California must earn a minimum of \$124,384 in income annually in order to qualify for a conventional, fixed-rate mortgage loan.² Only 21.3% of all California households earn that much income, including only 12.1% of all African Americans in the state.³ In contrast, the median income of all California residents is \$54,558, while that of the African American residents of the state is \$40,709. The exorbitant price of homes, combined with African American households' lower aggregate wealth and this 25% differential in median income means that only 1 in 23 African American potential new homebuyers can afford a home in this state.

The homeownership rate for African Americans in California is 41.7%, compared to 68.4% for Whites, a 26.7-point differential.⁴ This very large homeownership gap between Whites and African Americans is directly attributable to the high cost of homes in this state, which in turn is a function of both demand and regulatory restrictions on the housing supply that has made the California housing market the most expensive in the nation, and second-to-last in

Homeownership Rate in California by Race



¹ US Census. *Census of Housing: Historical Census of Housing Tables: Homeownership*. Last revised Dec. 2004.

² Author's calculations based on September 2007 home pricing data from DataQuick.

³ Author's calculations based on data from US Census American Community Survey, 2006.

⁴ Author's calculations based on data from US Census, 2000.

overall homeownership. While 69% of Americans of all races own their homes, only 58.1% of Californians do.

This situation is likely to get worse as housing prices continue to rise and the demographics of the state change. The ongoing rise in foreclosures across the nation has been shown to be a product of excessive deregulation of the financial services industry at the federal level, and of greed and dishonesty at the level of individual mortgage brokers and the firms that represent them. In fact, given African Americans' increased probability of receiving a subprime loan, the credit crunch produced by this crisis is likely to reduce the number of African Americans who qualify for home mortgages by half.

At one time mortgage brokers were usually salaried employees of established, federally-regulated banks that based their decisions upon whether or not to lend the bank's money to a prospective borrower on strict guidelines based on the borrowers' income and credit history. However, lenders have recently changed the way they do business, with both good and bad repercussions for both borrowers and the financial services industry.

One such change allowed lenders to make credit available to people with incomes too low for a traditional mortgage, or those with poor or nontraditional credit histories, by offering subprime loans, which are loans whose interest rate is several points higher than the federal, or "prime" rate, in an effort to bridge the additional risk associated with lending to what are considered to be riskier borrowers.

A second change in the industry concerns the expansion of the mortgage business from solely federally-regulated financial institutions to many smaller outfits, none of which fall under federal oversight. Lenders from both these smaller mortgage lenders and larger banks are increasingly paid a commission per loan originated proportional to the amount of the loan they brokered. As part of the ongoing investigations on the foreclosure crisis, it has been discovered that unscrupulous lenders have taken advantage of borrowers by encouraging prospective borrowers to take out a loan larger than that which they can comfortably afford, resulting in greater profits for the individual brokers.

Most virulent among the profit-making schemes is the flourishing of the now-infamous adjustable-rate mortgages (ARM), which entice the borrower with a low initial interest rate that then resets after a specified number of years, at which point the rates will increase steadily. This results in ballooning monthly payments that quickly become out of reach for lower-, moderate-, and even middle-income households.

Packaging these mortgages as securities whose value was buoyed by what was once believed to be a strong housing market and selling them to investors spread the risk widely, but not necessarily effectively.

This unbridled lending party began spinning out of control in mid-2006, when the glut of adjustable-rate mortgages made during the housing boom years of 2000-2004 began to reset, causing homeowners' monthly mortgage payments to rise significantly.

It is estimated that by the end of 2007, two million households will lose their homes to foreclosure.⁵ Given that the median household in the United States contains 2.59 persons⁶, this represents at least 5 million Americans who will face the emotional and financial hardship of losing their homes.

An important study by the National Community Reinvestment Coalition (NCRC) revealed that women, minorities, and lower-income borrowers are most likely to receive a subprime loan.⁷ Specifically, the study showed that African Americans and Latinos are *two times* more likely to receive a subprime loan than non-Hispanic Whites, even when controlling for income and credit worthiness. These unsettling results show that there are cases when a borrower of color received a higher-priced loan, even if (s)he was just as qualified for a prime loan as a White borrower. It is therefore clear that these are the groups that are now being hit the hardest by the ongoing foreclosure crisis.



Source: Foreclosure data from DataQuick, period June 2005 to August 2007.

In addition, a study by the Federal Reserve Bank of Boston demonstrates that 55% of borrowers who were given subprime loans actually qualified for prime loans⁸, and data from First American LoanPerformance states that 61% of borrowers who received subprime loans in 2006 alone

⁵ *Income is No Shield Against Racial Differences in Lending: A Comparison of High-Cost Lending in America's Metropolitan Areas.* John Taylor, David Berenbaum, Joshua Silver, and Anna Gullickson. The National Community Reinvestment Coalition, Jul. 2007.

⁶ US Census, 2000.

⁷ Ibid.

⁸ "Subprime Debacle Traps Even Very Credit-Worthy." Rick Brooks And Ruth Simon. *Wall Street Journal*, December 3, 2007.

were eligible for prime loans.⁹ All three of these studies point definitively to widespread unfair lending practices that have disproportionately affected lower-income and minority borrowers.

The number of prime-rate loans to minorities could be substantially increased if the banking industry developed a uniform standard for ensuring that prime-rate borrowers receive prime rates rather than subprime rates.

The strongest and most effective solution proposed for resolving the foreclosure crisis has been advanced by FDIC Chair Sheila Bair, who would require all subprime mortgages to reset into conventional, 30-year fixed-rate mortgages.¹⁰ This would protect homeowners whose adjustable-rate mortgages are soon to reset from ballooning monthly payments.

Until the banking industry uniformly recognizes the credit history of minorities, particularly through alternative credit scoring, it is unlikely that we will be able to fully close the present minority homeownership gap.

⁹ Ibid.

¹⁰ "Bair: Increase Modifications." Joe Adler. *American Banker*, Sep. 28, 2007.

EXECUTIVE SUMMARY AND METHODOLOGY

The Greenlining Institute produces this report each year to compare California's top banks in terms of their lending to our state's African American potential homebuyers. The data for the banks are based on figures submitted to us by the banks studied, which are in turn based on publicly-reported HMDA disclosure data available from the Federal Financial Institutions Examination Council (FFIEC). Industry averages and data for metropolitan statistical areas (MSA) are from the HMDA aggregate reports, also available from the FFIEC.

The Home Mortgage Disclosure Act (HMDA) was enacted by Congress in 1975 to bring transparency to the private mortgage origination industry. A 1989 revision to Regulation C, the section that mandates the production of disclosure reports, mandated the disaggregation of the data by race, ethnicity and gender. A further revision to Regulation C in 2002 mandated that financial institutions report the rate spread for their loans. Since the passage of this Act, the number and share of loans originated to people of color have increased significantly, making this law one of the most significant for helping Americans of color gain wealth.

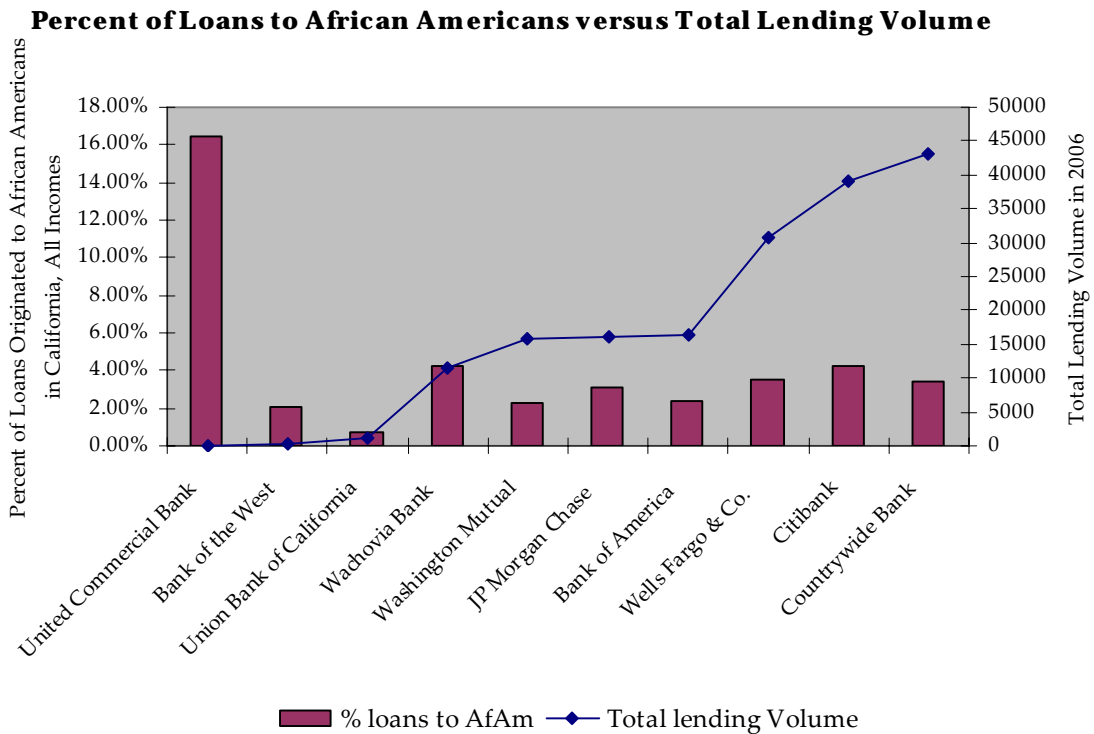
For this report, Greenlining tabulated only prime-rate, conventional (Type 1) loans originated for home purchase (Purpose 1). In addition, we limit the loan tallies to only those loans that were originated (Action 1). We present this data for all African Americans in California, as well as separately for moderate-income and for lower-income African Americans statewide. We include a separate section for loans originated to African Americans in the Los Angeles/Long Beach/Glendale metropolitan area, as well as an overview of housing and race statistics for all metropolitan areas in the state.

The following chart summarizes the ranks of each of California's top ten banks in terms of the share of prime-rate loans originated to African Americans of all incomes:

Summary of all Ranks in this Report

Institution	Rank in <i>Percent of Loans to African Americans in California (Table 1.1)</i>	Rank in <i>Number of Loans to African Americans in California (Table 1.1)</i>	Rank in <i>Percent of Loans to Moderate- Income African Americans in California (Table 2.1)</i>	Rank in <i>Number of Loans to Moderate- Income African Americans in California (Table 2.1)</i>	Rank in <i>Percent of Loans to Lower- Income African Americans in California (Table 3.1)</i>	Rank in <i>Number of Loans to Lower- Income African Americans in California (Table 3.1)</i>
Bank of America	8	5	5	4	4	4
Bank of the West	5	10	4	8	1	6
Citibank	6	7	6	5	6	7
Countrywide Bank	3	1	3	1	2	1
JP Morgan Chase	4	3	9	7	6	7
Union Bank of California	10	9	10	9	6	7
United Commercial Bank	1	8	1	7	6	7
Wachovia Bank	2	4	2	2	2	2
Washington Mutual	9	6	8	6	5	5
Wells Fargo & Co.	7	2	7	3	3	3

While this report does not contend that the disparities among the banks in loan originations to African Americans are a result of overt discrimination, there are, in fact very large disparities in their lending performance, as this report will show. Most tellingly, there is no relationship between a bank's total lending volume and the percent of loans it originates to African Americans, as presented in the chart below. In this example we see that **United Commercial Bank**, which produced only 0.2% as many loans as the state's largest loan originator, **Countrywide Bank**, actually made a 474% larger share of its loans to African Americans than the industry leader.



These results indicate that it is a financial institution’s commitment to serving traditionally underserved communities that determines its lending performance, not the size of its mortgage origination output.

Among the other findings presented in this report are the following:

- The ten major financial institutions originated **4,598** prime-rate home loans (**2.96%** of all prime-rate loans originated in 2006) to African Americans of all incomes.
- **590** prime-rate home loans (**0.38%** of all prime-rate loans originated in 2006) were originated to moderate-income African Americans (those earning between \$26,814 and \$42,903 annually) in California. This income represents 50 to 80 percent of the state median income.
- **174** loans (**0.11%** of all prime-rate loans originated in 2006) were originated to low-income African Americans (those earning less than \$26,814 annually) in California. This income represents less than 50 percent of the state median income.
- Only *two banks* out of the ten, **Wachovia** and **Countrywide** originated *any loans at all* to low-income African Americans in the Los Angeles metropolitan area.
- While African Americans represent **6%** of the population of California, they received only **3.66%** of all home loans in 2006. In contrast, Whites represent **46%**

of the state's population and received **66%** of all home loans. African Americans are therefore receiving half as many loans as they should per percent of their representation in the state population, while Whites are receiving twice as many.

Greenlining also produces a report on lending to Latinos, which will be published soon.

SECTION ONE

AFRICAN AMERICAN HOMELENDING IN CALIFORNIA

While African Americans represent 6% of the state population, they received an average of only 2.94% of all prime-rate home loans. In contrast, Whites, who comprise 43% of the state population, received 66% of all prime-rate home loans.¹¹ This means that while African Americans receive about half the share of all loans originated annually compared to their representation in the state population, non-Hispanic Whites get a significantly greater proportion of all loans per percent of representation.

United Commercial Bank, a newcomer to Greenlining’s annual study has taken the lead by far in the percent of loans originated to African Americans, as presented in Table 1.1. In terms of number of loans, **Countrywide** originated the greatest number of loans to this demographic, closely followed by **Wells Fargo**.

Rank	Bank	% loans to African Americans	# loans to African Americans	# loans w/ race indicated (total)
1	United Commercial Bank	16.48%	15	91
2	Wachovia Bank	4.25%	486	11,438
3	Countrywide Bank	3.48%	1,485	42,700
4	JP Morgan Chase	3.13%	502	16,058
5	Bank of the West	2.67%	5	187
6	Citibank	2.65%	257	9,708
7	Wells Fargo & Co.	2.58%	1,083	41,899
8	Bank of America	2.42%	399	16,491
9	Washington Mutual	2.27%	358	15,737
10	Union Bank of California	0.76%	8	1,056
	Total for Top 10 Banks	2.96%	4,598	155,365
	<i>Industry Average and Totals¹²</i>	3.66%	9,986	272,732

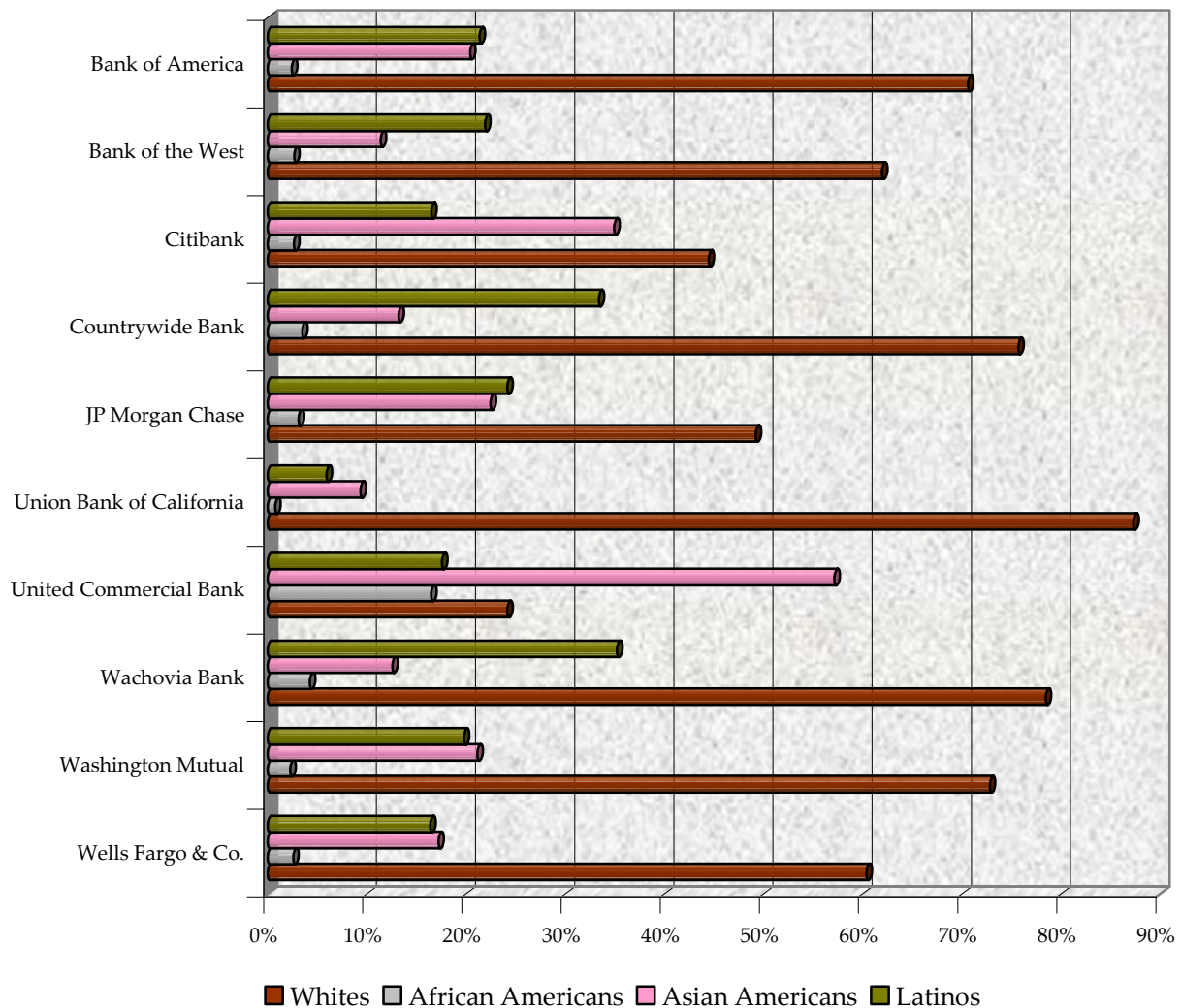
¹¹ Population percentage data from US Census, American Community Survey, 2006. Home loan percentages are author’s calculations based on bank-submitted data.

¹² Author’s calculations based on publicly-available HMDA disclosure tables. Available at <http://www.ffiec.gov/hmda>.

Unfortunately the average percent of prime-rate loans originated to African Americans by all top 10 banks in California combined is 0.70 percentage points below the industry average, and only **United Commercial Bank** and **Wachovia** originated prime-rate mortgages to African Americans in proportions above the industry average.

Table 1.2 depicts the percentage of conventional prime rate home loans originated by each institution for four specific racial categories. Most of the percentages do not add up to 100% because not all racial categories are represented.

Percentage of Home Loans Originated in California by Race/Ethnicity and Institution (All Incomes), 2006



SECTION TWO

MODERATE-INCOME AFRICAN AMERICAN HOMELENDING IN CALIFORNIA

This section reports the number and the proportion of loans going to moderate income African Americans, which at 50 to 79 percent of the area median income (AMI), earn between \$29,268 and \$46,826 per year.¹³ African American households represent 7.1% of all moderate income households in the state, and 25.6% of all African American households earn a moderate income.

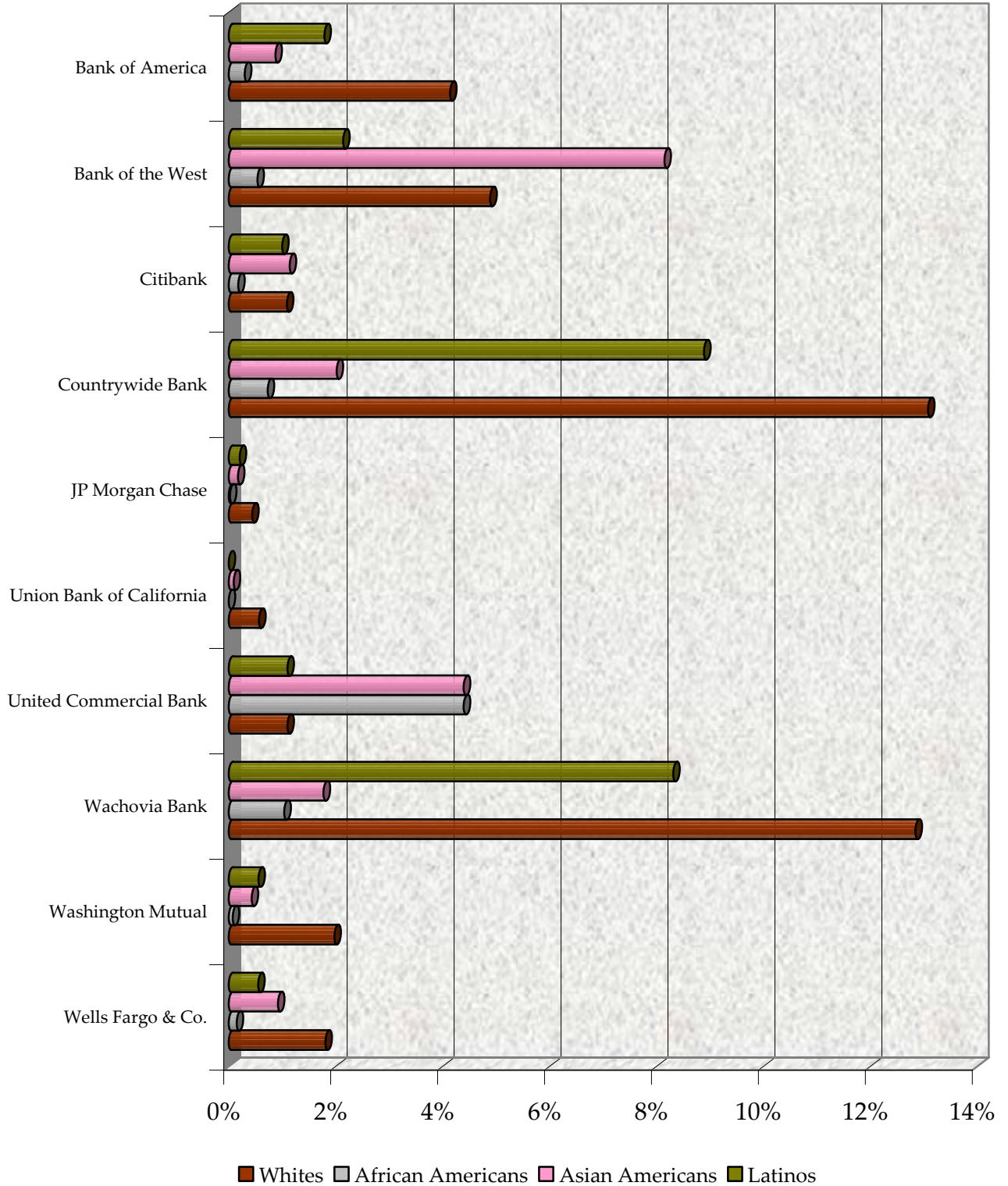
United Commercial Bank is well ahead of its competitors in lending to moderate-income African Americans, originating 4.4% of all their loans in fiscal year 2006 to this demographic (Table 2.1).

Table 2.1 Percent of Conventional Home Loans Originated to MODERATE-INCOME (between 50 and 79% AMI) African Americans in California in 2006				
Rank	Bank	% loans to African Americans	# loans to African Americans	# loans w/ race indicated (all incomes)
1	United Commercial Bank	4.40%	4	91
2	Wachovia Bank	1.04%	119	11,438
3	Countrywide Bank	0.73%	310	42,700
4	Bank of the West	0.54%	1	184
5	Bank of America	0.37%	61	16,491
6	Citibank	0.18%	17	9,708
7	Wells Fargo & Co.	0.15%	62	41,899
8	Washington Mutual	0.08%	12	15,737
9	JP Morgan Chase	0.02%	4	16,058
10	Union Bank of California	0.00%	0	1,056
Total for Top 10 Banks		0.38%	590	155,365

Table 2.2 depicts the percentage of conventional prime rate home loans originated by each institution for four specific racial categories. Most of the percentages do not add up to 100% because not all racial categories are represented.

¹³ AMI thresholds are based on Housing and Urban Development guidelines, and the dollar values are this author's calculations based on income information from the US Census American Community Survey, 2006.

**Percentage of Home Loans Originated to Moderate-Income Borrowers
in California by Race/Ethnicity and Institution, 2006**



SECTION THREE

LOW-INCOME AFRICAN AMERICAN HOMELENDING IN CALIFORNIA

Low-income Californians face the greatest challenge in obtaining housing, whether rental or ownership. This section reports the number and the proportion of loans going to low-income African Americans, which at 50 percent or less of the area median income (AMI), earn less than \$29,268 annually.¹⁴ African American households represent 9.7% of all low-income households in the state, and a staggering 32.4% of all African American households are low-income earners. In comparison, 4.6% of Whites and 12% of Latinos are low-income earners.¹⁵

Bank of the West, a newcomer to Greenlining’s annual study, takes the top position in the state of California in lending to low-income African Americans, ahead of the previous years’ top bank, **Countrywide**.

Table 3.1
Percent of Conventional Home Loans Originated to LOW-INCOME
(less than 50% AMI) African Americans in California in 2006

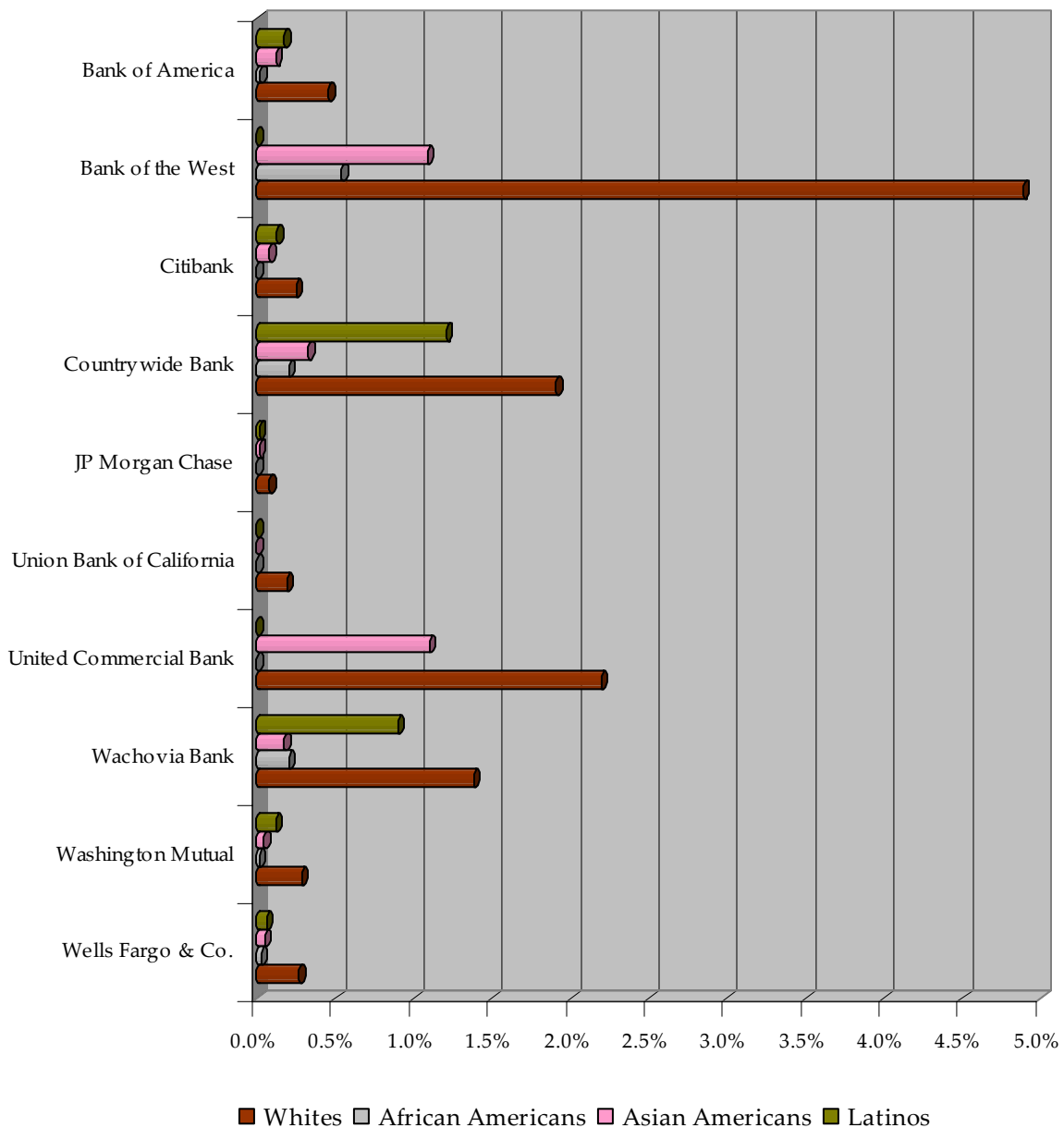
Rank	Bank	% loans to African Americans	# loans to African Americans	# loans w/ race indicated (all incomes)
1	Bank of the West	0.54%	1	184
2	Countrywide Bank	0.20%	87	42,700
2	Wachovia Bank	0.20%	23	11,438
3	Bank of America	0.02%	3	16,491
4	Wells Fargo & Co.	0.02%	8	41,899
5	Washington Mutual	0.01%	2	15,737
6	Citibank	0.00%	0	9,708
6	JP Morgan Chase	0.00%	0	16,058
6	United Commercial Bank	0.00%	0	91
6	Union Bank of California	0.00%	0	1,056
	Total for Top 10 Banks	0.11%	174	155,365

¹⁴ AMI thresholds are based on Housing and Urban Development guidelines, and the dollar values are this author’s calculations based on income information from the US Census American Community Survey, 2006.

¹⁵ Author’s calculations based on US Census American Community Survey, 2006.

Table 3.2 depicts the percentage of conventional prime rate home loans originated by each institution for four specific racial categories. Most of the percentages do not add up to 100% because not all racial categories are represented.

Percentage of Home Loans Originated to Low-Income Borrowers in California by Race/Ethnicity and Institution, 2006



SECTION FOUR

HOMELENDING TO AFRICAN AMERICANS LIVING IN THE LOS ANGELES/LONG BEACH/GLENDALE MSA

This year, *only 2% of all residents* of the Los Angeles/Long Beach/Glendale metropolitan area can afford to purchase a home in their metro area.¹⁶ This means that the second most populated metro area in the United States¹⁷ is also the nation's most unaffordable. Due to these dubious distinctions, and to the centrality of Los Angeles' economy to the well-being of our state, the Greenlining Institute adds this special section on homelending to African Americans in this metro area.

The home price correction precipitated by the reduction in the availability of credit has caused home prices to decrease by 3.8 percent since this time last year,¹⁸ which has increased affordability compared to 3 percent this year. The median home price in Los Angeles County is currently \$500,000.¹⁹ The homeownership rate for the metropolitan area is 47.5%,²⁰ which is fully 10.6 percentage points lower than the median for the state as a whole.

Table 4.1
Conventional Home Loans Originated to African Americans in Los Angeles/Long Beach/Glendale MSA (2006)

Rank	Bank	% loans to African Americans	# loans to African Americans	# loans w/ race indicated
1	United Commercial Bank	32.61%	15	46
2	Wachovia Bank	7.00%	119	1,700
3	Bank of the West	6.06%	2	33
4	Countrywide Bank	5.43%	557	10,263
5	Wells Fargo & Co.	3.75%	265	7,068
6	Washington Mutual	3.73%	122	3,268
7	JP Morgan Chase	3.40%	184	5,408
8	Citibank	3.39%	98	2,893

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¹⁶ National Association of Home Builders' Housing Opportunity Index, 2007.

¹⁷ US Census, American Community Survey, 2006.

¹⁸ "Southland home sales plummet." *DQNews*. Nov. 14, 2007. Available at <http://www.dqnews.com/RRSCA1107.shtm>.

¹⁹ *Ibid.*

²⁰ Author's calculations based on data from US Census, American Community Survey, 2006.

9	Bank of America	3.30%	97	2,938
10	Union Bank of California	1.27%	5	394
Total for Top 10 Banks		4.70%	1,464	31,170

Table 4.1 shows that **United Commercial Bank**, a newcomer to Greenlining’s study, took the position of top bank in percentage of loans—by far—to African Americans in California.

Table 4.2 presents the data on lending to moderate-income African Americans in the Los Angeles metropolitan area.

Table 4.2 Conventional Home Loans Originated to African Americans earning between \$41,459 and \$25,912 in the Los Angeles/Long Beach/Glendale Metropolitan Area (2006)				
Rank	Bank	% loans to African Americans	# loans to African Americans	# loans w/ race indicated (all incomes)
1	United Commercial Bank	8.70%	4	46
2	Wachovia Bank	1.76%	30	1,700
3	Countrywide Bank	1.10%	113	10,263
4	Citibank	0.10%	3	2,893
5	JP Morgan Chase	0.04%	2	5,408
6	Bank of America	0.03%	1	2,938
7	Wells Fargo & Co.	0.01%	1	7,068
8	Bank of the West	0.00%	0	33
8	Washington Mutual	0.00%	0	3,268
8	Union Bank of California	0.00%	0	394
Total for Top 10 Banks		0.49%	154	31,170

Table 4.3 presents the data on lending to low-income African Americans in the Los Angeles metropolitan area.

**Table 4.3
Conventional Home Loans Originated to African Americans earning less than \$25,912 in
the Los Angeles/Long Beach/Glendale Metropolitan Area (2006)**

Rank	Bank	% loans to African Americans	# loans to African Americans	# loans w/ race indicated (all incomes)
1	Wachovia Bank	0.41%	7	1,700
2	Countrywide Bank	0.30%	31	10,263
3	Citibank	0.00%	0	2,893
3	Bank of the West	0.00%	0	33
3	Washington Mutual	0.00%	0	3,268
3	JP Morgan Chase	0.00%	0	5,408
3	United Commercial Bank	0.00%	0	46
3	Wells Fargo & Co.	0.00%	0	7,068
3	Bank of America	0.00%	0	2,938
3	Union Bank of California	0.00%	0	394
	Total for Top 10 Banks	0.12%	38	31,170

SECTION FIVE

AFRICAN AMERICAN HOMELENDING BY METROPOLITAN AREA

Housing affordability in California is no longer a problem limited to lower- and moderate-income families, although it is these families that are most affected by the rising cost of homeownership. Nine out of the top ten least affordable housing markets are located in California, and all California metro areas are in the top half of unaffordable housing markets in the nation (Table 5.1).²¹

Metro Area	Percentage of Homes Affordable to Median Earners (Housing Opportunity Index)	Median Sales Price (2Q, 2007)
Los Angeles-Long Beach-Glendale, CA	3.0%	\$530,000
Salinas, CA	3.7	556,000
Merced, CA	3.8	296,000
Santa Ana-Anaheim-Irvine, CA	4.4	615,000
San Francisco-San Mateo-Redwood City, CA	5.7	802,000
Santa Barbara-Santa Maria-Goleta, CA	6.2	538,000
New York-White Plains-Wayne, NY-NJ	6.3	510,000
Napa, CA	6.4	577,000
San Luis Obispo-Paso Robles, CA	6.4	527,000
Modesto, CA	7.0	330,000

This lack of affordability has serious implications for the state's ability to attract a productive middle class that expects to achieve homeownership. Business interests have already taken note of the effect of high housing prices on their competitiveness, especially the high-tech companies in Silicon Valley that depend on young, middle-class workers to drive innovation.

The cost and availability of capital have a profound effect on housing prices and housing demand, and inequitable access to either of these will produce glaring

²¹ From Wells Fargo/National Association of Home Builders (NAHB) Housing Opportunity Index (HOI). Available at <http://www.nahb.org>.

disparities in the ability of different groups to be full, active participants in the market. Table 5.2 presents the percent of loans originated to African Americans in each metropolitan area in California relative to their representation in the metropolitan area.

**Table 5.2
Conventional Home Loans Originated to African Americans of All Incomes, by MSA, 2006**

MSA	Percent of all Loans Originated to African Americans in MSA	African Americans as % of Total Population in MSA ²²	Disparity	Total Number of Loans Originated to African Americans in MSA ²³	Total Number of Loans Originated in MSA
CALIFORNIA	3.66%	6.0%	-2.34%	9,986	272,732
Bakersfield	2.42%	5.3%	-2.88%	159	6,560
Chico	0.91%	1.3%	-0.39%	12	1,315
El Centro	1.16%	3.4%	-2.24%	15	1,289
Fresno	2.36%	4.7%	-2.34%	142	6,010
Hanford	3.05%	6.9%	-3.85%	22	722
Los Angeles	5.44%	8.7%	-3.26%	2,779	51,106
Madera	2.51%	3.5%	-0.99%	25	996
Merced	4.29%	3.3%	0.99%	782	18,243
Modesto	2.02%	2.6%	-0.58%	77	3,804
Napa	1.27%	2.1%	-0.83%	11	869
Oakland	5.68%	11.2%	-5.52%	1,241	21,851
Oxnard	1.19%	1.8%	-0.61%	79	6,665
Redding	0.36%	0.7%	-0.34%	4	1,102
Riverside	5.01%	7.3%	-2.29%	2,018	40,275
Sacramento	4.29%	7.6%	-3.31%	782	18,243
Salinas	1.19%	2.9%	-1.71%	22	1,843
San Diego	2.33%	4.8%	-2.47%	554	23,753
San Francisco	1.07%	6.6%	-5.53%	130	12,151
San Jose	1.21%	2.5%	-1.29%	188	15,551
SLO	0.52%	1.5%	-0.98%	10	1,912
Santa Ana	1.13%	1.6%	-0.47%	221	19,525
Santa Barbara	0.97%	1.9%	-0.93%	20	2,069
Santa Cruz	0.61%	0.9%	-0.29%	10	1,630

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²² Author's calculations based on data from US Census, American Community Survey, 2006.

²³ Data from publicly-available HMDA disclosure tables. Available at <http://www.ffiec.gov>.

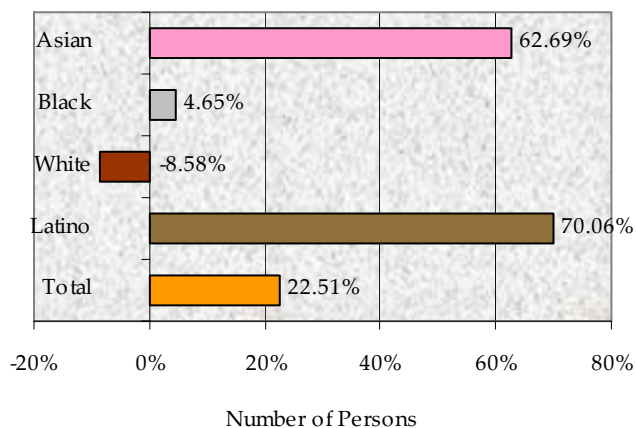
Santa Rosa	1.10%	1.5%	-0.40%	39	3,559
Stockton	6.02%	6.9%	-0.88%	301	5,001
Vallejo	9.80%	14.6%	-4.80%	288	2,938
Visalia	0.75%	1.6%	-0.85%	18	2,407
Yuba	2.76%	2.1%	0.66%	37	1,343

The column marked, “Disparity” in Table 5.2 shows that in 26 out of a total of 28 metropolitan areas, financial institutions are originating a percentage of home loans to African Americans that is less than their representation in the metropolitan area. Throughout the state, African Americans are receiving 2.34% less loans that they would if all financial institutions originated loans at parity with African Americans’ representation in the total population.

In contrast, in only 5 out of 28 metropolitan areas did financial institutions originate fewer loans to non-Hispanic Whites than their representation in the metropolitan area. Statewide, non-Hispanic Whites receive 6.4 percent *more* loans than their representation in the state population.

Why is this significant? Non-Hispanic Whites represent a shrinking demographic in the state of California, as they are the only racial/ethnic group in the state that is *leaving* the state at a faster rate than they are arriving or reproducing. In contrast, the change in the population of African Americans in California, though small, is growing. The non-Hispanic White population has *decreased* by 8.58% a over the past 16 years, and the African American population has *increased* by 4.65% over the same time period.²⁴

Change in California's Population by Race, 1990-2006



Given these demographic changes, it should follow that if the proportion of loans going to African Americans does not change in relation to their increasing share of the population, then African Americans are being denied the opportunity for homeownership and are therefore renting.

²⁴ Author’s calculations based on population data from California Department of Finance and US Census American Community Surveys 2001-2006.

For this reason, financial institutions should set a goal of matching the percent of loans originated to African Americans to their increasing representation in the state.

SECTION SIX

HOUSING MARKET SNAPSHOTS IN CALIFORNIA'S METRO AREAS, 2005-2006

Statewide in 2006, only 4.3 percent of African American households could afford the median-priced home with a conventional, fixed-rate mortgage. This means that only 1 out of 23 potential African American homebuyers can afford the median home in California. In comparison, 10.8 percent of all Californians can afford the median-priced home. It is clear that the housing market is failing to serve most Californians, especially our state's communities of color. Table 6.1 presents the change in the price of the median home from 2005 to 2006, as well as the percent of African American households that can afford the median home in each metropolitan area.

Table 6.1
Median Home Prices by MSA, 2005-2006²⁵

MSA ²⁶	Median Home Price, 2006	Median Home Price, 2005	Percent Change 2005-2006	Median Income of African American Households, 2006 ²⁷	Percent African American Households that can Afford a Home in this MSA, 2006 ²⁸
CALIFORNIA	\$512,500.00	\$497,000.00	3.12%	40709	4.3%
Bakersfield	\$279,750.00	\$232,500.00	20.30%	37670	1.6%
Fresno	\$299,500.00	\$270,000.00	10.90%	20946	5.2%
Los Angeles	\$515,000.00	\$459,000.00	12.20%	37382	3.9%
Modesto	\$381,000.00	\$340,000.00	12.10%	36328	6.2%
Oakland	\$590,000.00	\$558,750.00	-5.59%	40951	1.6%
Oxnard	\$600,000.00	\$570,000.00	5.30%	80214	3.7%
Riverside	\$387,000.00	\$344,000.00	-12.50%	49339.5	14.0%

CHART CONTINUES ON NEXT PAGE →

²⁵ Median home prices for May 2005 and May 2006 from DataQuick.

²⁶ The MSA that are not presented here did not have a reported median home price in DataQuick or a reported median income for African American households in the US Census American Community Survey, 2006.

²⁷ Author's calculations based on data from US Census American Community Survey, 2006.

²⁸ Author's calculations based on the percentage of African American households that earn an income equal to or greater than that required to purchase the median home, assuming a conventional, 30-year fixed-rate mortgage with 7% interest, and a 10% downpayment. Income data from US Census American Community Survey, 2006. Minimum income required is author's calculation, and home price data from DataQuick.

Sacramento	\$427,500.00	\$457,000.00	6.46%	80758	5.0%
Salinas	\$619,000.00	\$573,000.00	8.00%	47571	1.3%
San Diego	\$510,000.00	\$510,000.00	0.00%	42023	3.5%
San Francisco	\$793,500.00	\$777,500.00	-2.06%	31080	1.7%
San Jose	\$654,750.00	\$621,500.00	-5.35%	51020	4.3%
Santa Ana	\$634,000.00	\$586,000.00	8.20%	59746	4.4%
Stockton	\$440,000.00	\$395,000.00	11.40%	40388	3.4%
Vallejo	\$455,500.00	\$425,000.00	7.20%	46790	5.6%

CONCLUSION

The housing affordability crisis in California is the product of a combination of high demand for land, local- and state-level regulatory barriers to housing production, the effects of the erosion of property tax revenue due to Proposition 13, NIMBY attitudes towards development, and other impediments that both decrease housing production and increase the cost of production.

The first priority for state and local leaders interested in providing housing relief for all Californians is to set realistic goals for long-term development in their jurisdictions that include housing for people of all income levels, and then make the appropriate changes to city ordinances and zoning codes that will allow the jurisdiction to reach its goals. For example, cities that have excessive building setback or parking requirements should consider reducing them in certain areas to spur housing production. Cities should also provide for the development of a variety of housing forms that are less expensive and consume less land than the single-family subdivisions that are the current dominant form of new housing in the state.

At the statewide level, it is imperative to create a state housing trust fund to provide dependable funds for incentivizing the development of more affordable housing.

While all these reforms would lower the supply-side barriers to housing production, financial institutions are responsible for crafting workable and equitable solutions to spur housing demand through responsible lending. Importantly, lending institutions should take into account the needs of borrowers with non-traditional credit, which includes many African American borrowers, and especially Latino borrowers.

Financial institutions should view lower- and moderate-income households as a potential emerging market that can be strengthened by the wealth-building benefits of homeownership. An increase in the number of households that can increase their wealth directly translates into more households participating more fully in our nation's economy. Given that homeownership is far and away the greatest source of wealth for the majority of Americans, a household's first home loan can be a ticket to future security, and a boon to the economy as a whole.

On the federal level, regulators must ensure that all lending, whether prime or subprime, is done responsibly. The subprime market has enormous potential to bring homeownership to households that can normally not afford to take this plunge, but

given the increased risks it is imperative that regulators enact a system of checks to ensure that fraud is minimized and that potential homebuyers are not misled.

Reductions in local barriers to increasing the housing supply, federal and state regulations to ensure greater security in the lending market, and strong commitments by individual financial institutions to lower-income and minority communities are a necessary three-pronged approach to increasing homeownership in California and the nation, as well as restoring borrower confidence. The Greenlining Institute expects that the lessons our nation has learned from the so-called “mortgage meltdown” translate into workable solutions that will strengthen the housing market for our future, including systematic efforts to move borrowers with subprime loans into more stable prime loans.