

LEFT BEHIND

The Reality of African American Homeownership in California

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a project of



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Executive Summary

“African Americans are paying the price for our anti-housing policies. Only 200 home loans statewide to California’s low income population is less than a drop in the bucket.”

*David Glover
Executive Director
Oakland Citizens Committee for Urban Renewal*

When only 229 conventional home loans go to African Americans earning at or below 50 percent of median income, a permanent state of exclusion from wealth creation is established. This state of deprivation needs to be rectified in order to promote fair and equal economic growth in California. If the California African American homeownership rate were to match the 69 percent homeownership rate in the nation, 500,000 additional African Americans will be living in a home that they own. This influx of homeownership would generate the need for an additional 150,000 units to be built.¹ These additional units are estimated to create an additional \$670 million in tax revenue² and an additional 410,000 new jobs in California.³

This report provides a wide range of comparisons among the seven major institutions in terms of number of conventional home loans made to African Americans by income and by overall percentage of loans made. Greenlining created an overall score that incorporated the rankings of number and percentage of loans made to African Americans of all incomes and low income African Americans in California.⁴ Based on the objective findings of this overall ranking, Wells Fargo is number one. However, in terms of numbers alone, not adjusted for market size, Countrywide is first.

In stark contrast to Wells Fargo or Countrywide is JP Morgan Chase, the nation’s second largest financial institution, with an \$800 billion commitment to low and moderate income homelending. JP Morgan Chase ranked low or very low in virtually every lending category. For example, while Wells Fargo made 93 loans to low income African Americans, JP Morgan Chase made just one seventh of that, 13 loans.

Overall Ranking

Institution	Rank	Composite Score	Rank in proportion of loans to Af. Am in California (table 1.1)	Rank in number of loans to Af. Am in California (table 1.1)	Rank in proportion of loans to low income Af. Am in California (table 2.1)	Rank in number of loans to low income Af. Am in California (table 2.1)
Wells Fargo Bank	1	8	2	2	2	2
Countrywide	2	10	3	1	5	1
World Savings	2	10	1	3	1	5
Bank of America	4	17	6	5	3	3
Washington Mutual	5	19	5	4	6	4
Citigroup	6	24	7	7	4	6
JP Morgan Chase	6	24	4	6	7	7

Two financial institutions, Wells Fargo and Bank of America, deserve particular recognition for showing the type of creative leadership that is crucial to alleviating the housing crisis by working to change the housing paradigm through leadership in state and local policy making.

Summary of Findings

The low rates of home lending to African American borrowers, especially those with lower incomes, prohibits many African American households from becoming homeowners. This report includes the following findings:

- In percentage of loans made to African American borrowers in California, **World Savings** (5%) and **Wells Fargo** (3.41%) finished as the top two lenders. (In contrast, **Citigroup** (1.9%) and **Bank of America** (2.15%) reported the lowest percentage of loans originated to African American borrowers in the state.)
- Of the state's major lenders, the top two lenders to African Americans were **Countrywide** (1856) and **Wells Fargo** (953). (In contrast, **Citigroup** (185) and **JP Morgan Chase** (225) reported the lowest number of loans to African Americans in California.)
- The top two lenders for low income African Americans borrowers in California are **Countrywide** (154) and **Wells Fargo** (93). (In contrast, the bottom two lenders reported only 41 loans total. **Citigroup** (28) and **JP Morgan Chase** (13).)
- The top two lenders for very low income African Americans borrowers in California are **Bank of America** (13) and **Washington Mutual** (10). In contrast, the bottom two lenders reported only 7 loans total. **JP Morgan Chase** (4) and **World Savings** (3).
- **528** loans were made by the seven major institutions to African Americans earning between \$41,000 and \$25,600 income in California⁵
- **48** loans were made by the seven major institutions to African Americans earning less than \$25,600.⁶

Preface

For the majority of African Americans living in California, the dream of homeownership continues to be unattainable. California's homeownership rate of 57 percent is next to last in the nation and well below the national average of 69 percent.⁷ Only 39 percent of African Americans in California are homeowners⁸ Moreover, African Americans in California have a lower homeownership rate than African Americans in the rest of the United States, at 38 percent for California, compared to 48 percent for the rest of the nation.⁹

Homeownership is a major vehicle for wealth formation in the United States. The comparatively lower rate of homeownership for African Americans results in lower median net wealth. The median net wealth for African Americans is one-tenth that for whites, (\$6,100 versus \$64,200 respectively).¹⁰ In order to build a more equitable society, this wealth disparity between the races must be confronted. One way to address wealth disparity is to encourage and facilitate homeownership amongst African Americans. However, a huge barrier exists for potential homebuyers in California of any race, the exponentially increasing cost of housing.

Between 2003 and 2004, the median home price in California rose 24 percent from \$381,000 to \$474,000.¹¹ In the same time period the national median home price rose by only 8.2 percent, from \$170,000 to \$184,000.¹² In 2005, California's median home price was \$548,430, an additional 15.7 percent increase. Consequently, the median home price in California is more than double the national median. In the more heavily populated metropolitan areas of California, the median home price is unaffordable even for a family with an income of \$100,000 a year. In Orange County, the median home price is \$633,340, while in San Diego County the median home price is \$546,830.¹³ In California, only 19 percent of households were able to afford a median priced detached home.¹⁴ African American median household income in California was \$38,595, 32 percent less than California's median household income of \$51,185.¹⁵ Therefore, most working African American families can not afford to own a home in California. Greenlining estimates that only 1 new homebuyer in 20 can afford a home in California.

The purpose of this report is to summarize the distribution of prime rate conventional home loans in California to African American borrowers in 2004 by major financial institutions. This study does not claim that discrimination accounts for the low proportion of home loans to African American borrowers. Rather, this report focuses on the scarcity of affordable housing in California and how the government, under the leadership of the Governor and a bipartisan legislature could rectify the high demand, low supply issue.

New home production needs in California have been estimated at 250,000 units per year.¹⁶ The year 2004 was the first year in which new housing permits exceeded 200,000 since the late 1980's. Even with this positive development, there will still be a shortfall of 50,000 new homes.¹⁷

This report argues that the barriers to creating more housing in the state are due to:

- Antiquated tax laws that create disincentives for local governments to encourage the development of affordable housing and penalizes average-income home buyers.
- Counterproductive property tax laws that increase the tax burden on new homeowners.
- Environmental extremism that curtails the development of affordable housing units in inner cities and near mass transit corridors.
- Counterproductive government regulations that have created a net shortfall of housing units and fail to develop low cost, high density housing along mass transit corridors.

Role of Financial Institutions

Although this report contends that direct discrimination is not a key factor in the disproportionate amount of loans going to African Americans, it should be noted that in some lending categories there are noticeable and inexplicable differences in the lending performance between major financial institutions analyzed in this report. For example, the top two lenders to low income African American borrowers in California were **Countrywide** (154 loans) and **Wells Fargo** (93 loans), but the bottom two lenders, **Citigroup** and **JP Morgan Chase**, the two largest financial institutions in the nation, made only 28 and 13 loans respectively. Thus, Wells Fargo, which is about one third the size of JP Morgan Chase, made seven times more home loans in California to low income African Americans.¹⁸

Given that these financial institutions play a crucial role in achieving homeownership, this report analyzes the conventional home purchase lending data of the state's largest lenders

to understand their role in assisting California's African American population realize the American dream of homeownership.

Latino and Asian American Homeownership

A comprehensive home lending study for California's Latino population will be published in late Spring 2006. In 2004, revisions to Regulation C (the regulation that requires disclosure of home mortgage data) included a revision of the "Asian, Pacific Islander" racial category into two separate categories: "Hawaiian or Other Pacific Islander" and "Asian". Greenlining is in the beginning phases of conducting research for a comprehensive home lending study for Asian Americans, with a particular focus on the disaggregation of Asian American homelending data. Greenlining believes that further disaggregation of homelending data for Asian Americans will reveal major disparities among Southeast Asian and Filipino American populations.

Introduction

Less than one in five California households can afford a median priced home in California.¹⁹ California's extraordinarily low homeownership rate of 57 percent places the state second to last in homeownership, significantly below the United State's average homeownership rate of 69 percent.²⁰ To meet the needs of California's growing population, 250,000 housing units need to be built every year between now and 2020.²¹ During 2004, 212,960 new homes and apartments were built, representing the highest production since 1989.²² However, the gains in housing production made in 2004 are not sufficient to meet the needs of the state's growing population, especially since in 2005, the state experienced a 2.7 percent decrease in building permits issues.²³ California's population increases about 500,000 people per year, which translates to adding a city the size of Long Beach, California every year.²⁴

Home price increases far outpace income increases, causing a majority of Californians to be priced out. In California only 19 percent of households were able to afford the median-priced home in September 2004, compared to 55 percent of households in the U.S.²⁵ The statewide median home price rose from \$250,000 in 2000 to \$474,000 in 2004.²⁶ This nearly 90 percent increase in median home price dwarfed the 7.2 percent increase in median household income in the same time period.²⁷

California's Housing Crisis: Factors and Issues

Failure to Plan for the Future—Taxation and Land Use

For the private sector to assist in increasing the supply of housing for Californians, effective state policies must be created and implemented that provide incentives rather than barriers to housing supply creation. Antiquated regulations in both land-use and taxation have resulted in increased barriers to housing supply increases over the past decade.

Tax Laws Discourage Housing Development

Proposition 13 and similar anti-homeownership tax laws create a financial disincentive for local jurisdictions to build new housing. Since cities do not receive a significant amount of their revenue through property taxes, but rather through retail and sales tax, many cities are setting aside scarce land for retail malls and so-called "big box" stores like Wal-Mart instead of affordable housing. Tax laws that create a disincentive for cities to approve housing must be revised so that cities can be given a financial incentive to build more homes and meet their housing needs.

Environmental Extremism, CEQA Abuse

Environmentalism has been placed at odds with housing development. Environmental extremism has prevented the construction of affordable housing and even inner city housing projects along mass transit corridors that incorporate greater density and mixed use. The "urban growth boundaries" that are being advanced by environmentalists are essentially artificial lines drawn in the land. These "urban growth boundaries" place extraordinary limits on the building of housing units, especially in conjunction with anti-density policies. The "Not-in-my-backyard" (NIMBY) movement leads frequently to CEQA abuse, when frivolous intervention to the building approval process can hinder infill developments and affordable housing projects.

Why Should California Build More Housing?

In addition to providing Californians with a roof over their head, housing production provides jobs and boosts the economy. It is estimated that the \$2.1 billion in housing bonds approved through Proposition 46 in 2002 has supported the creation of 276,000 jobs.²⁸ The housing industry contributes \$218 billion per year to the economy and accounts for approximately ten percent of all economic activity in the state.²⁹ An affordable housing market is crucial to recruitment of new talent and attracting capital to the state. If California wants to continue its legacy of attracting entrepreneurs, and enterprise, then the state needs to make sure that housing costs remain affordable for a majority of Californians. Stabilizing housing prices will help the state maintain its status as the world's sixth largest economy.

Methodology

Homelending data used in this report was provided to Greenlining by the financial institutions. Greenlining contacted major lending institutions and requested first lien conventional home purchase origination data for all prime rate originations. In addition, Greenlining also set out to cross check data provided by independent analysis. This report uses publicly reported 2004 Home Mortgage Disclosure Act (HMDA) data. Disclosure of HMDA data is implemented by the Federal Reserve Board's Regulation C under the Home Mortgage Disclosure Act enacted by Congress in 1975. Revisions to Regulation C set forth by the Federal Reserve Board in 1989 require reporting of data regarding to the disposition of the applications for mortgage including information on the race, sex and income of loan borrowers.³⁰ Amendments to Regulation C that were passed in May 2002 came into effect for the 2004 HMDA data. This amendment requires institutions to report the pricing of the loan and how many percentage points above average each loan was. This pricing element allows the public to determine which groups of borrowers received loans that were higher priced, i.e. subprime loans. In this report, Greenlining has chosen to only compare prime rate loans in order to seek a more accurate and fair comparison. By only comparing prime rate loans, this report will avoid giving an institution that lends to low income African Americans at a high price the same recognition as an institution that lends to low income African Americans at a fair market rate. The pricing disclosure on the 2004 HMDA data and its relationship to minority communities is addressed in a Greenlining study published in September 2005.³¹

The loans analyzed in this report do not include Federal Housing Administration (FHA) loans. FHA loans provide financial institutions with protection against losses if a borrower defaults on the loan. The lenders bear less risk because FHA will pay a claim to the lender if a homeowner defaults.³² The lack of risk associated with FHA loans make FHA loans an unfair comparison to conventional prime rate home loans. As with subprime loans, it would be unfair to compare an institution whose loan register included many FHA loans versus an institution that reported many conventional home loans. More importantly, Greenlining believes that FHA loans and their backers, Government Sponsored Enterprises (GSE) need to be held to the same standards of accountability as private financial institutions. Federal Reserve studies concluded that consumers receive no direct benefit from the expansive portfolio holdings of the GSEs.³³ Alan Greenspan has indicated that GSEs need guidance in order to "firmly anchor GSEs to their public purpose".³⁴

Percentages of loans to African Americans made by each institution are presented and used as a proxy for analyzing new African American homeowners in 2004. Percentages are calculated using only loans with ethnicity indicated for the region that is being compared.

Each institution's percentage of home loans made to African Americans is compared to the industry average. The industry average is calculated by Greenlining using publicly available aggregate HMDA data. Industry average indicates the number of conventional home purchase loans given to African American borrowers as a percentage of all conventional home purchase loans originated in the area being compared. Comparison between institution specific data to industry average data is used to gauge the efforts by major lenders in promoting the dream of homeownership to African Americans in California.

Report Overview

Section one reviews the total number and proportion of lending to African Americans in California at all income levels.

Section two reviews lending to low-income African Americans.

Section three reviews lending to very low-income African Americans.

Section four provides a case study by providing closer examination of African American homelending in Los Angeles.

Section Five gives African American lending information by Metropolitan Statistical Area (MSA).

Section Six details recommendations for alleviating the housing crisis

Section 1: African American Homelending in California

Greenlining sets forth a comparison of the seven largest home lenders in California by the percentage of conventional home loans made to African Americans in the state. Greenlining found that although African Americans make up approximately 6.2 percent of the state, they only received a disproportionately low 3.5 percent of all home loans. (See Table 1.1) In contrast, whites make up 44 percent of the population of the state of California³⁵, but received 62.6 percent of home loans. (See Table 1.2)

Best in Proportion of Loans: World Savings
Last in Proportion of Loans: Citigroup

Of the largest home lenders in California, World Savings ranked first in terms of the proportion of loans made to African Americans in California. World Savings made 5 percent of its prime rate loans to African American borrowers in California. In contrast, Citigroup ranks at the bottom with only 1.9 percent of prime rate loans made to African Americans. Only World Savings exceeded the state average of loans made to African Americans.

Table 1.1

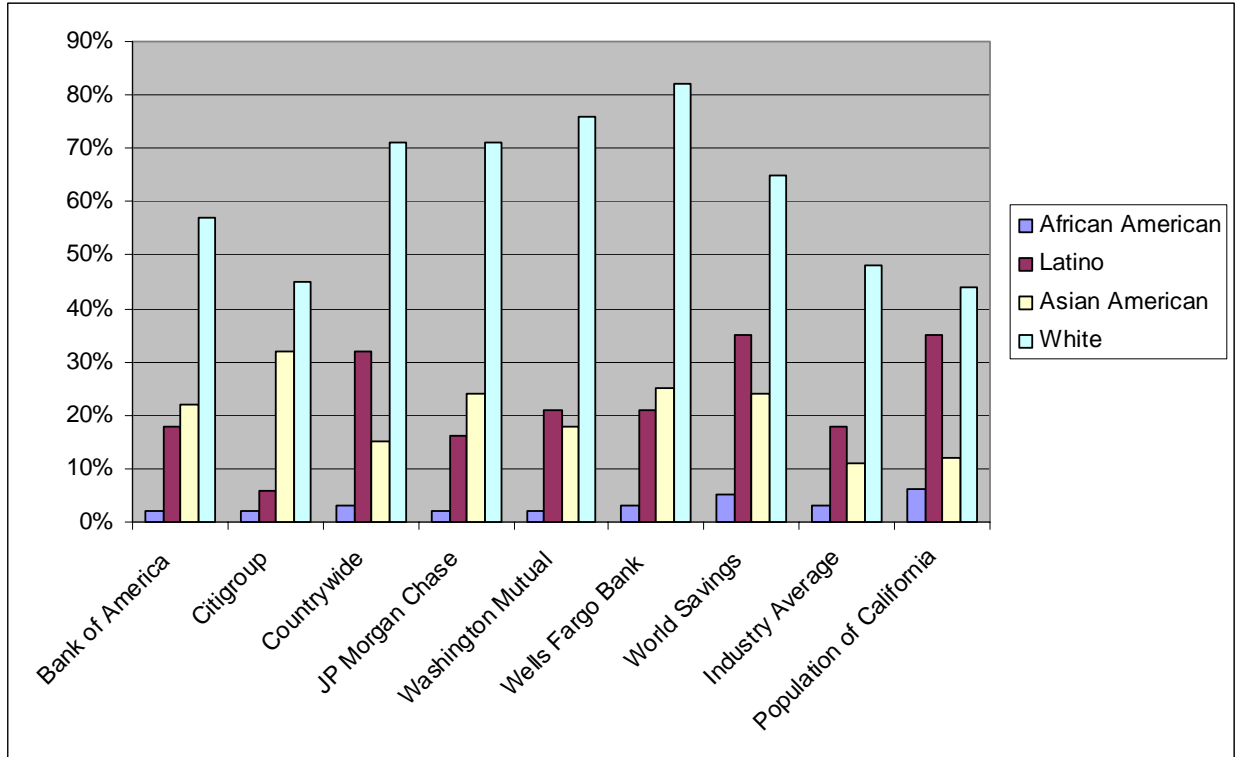
Conventional Home Loans made to African Americans in California-2004

	% African Am loans	# of loans	loans with race indicated
World Savings	5.00%	877	17547
Wells Fargo Bank	3.41%	953	27915
Countrywide	3.33%	1856	55656
JP Morgan Chase	2.35%	225	9586
Washington Mutual	2.24%	864	38628
Bank of America	2.15%	606	28216
Citigroup	1.93%	185	9571
Industry Average and Totals³⁶	3.58%	20891	583398

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. This table shows that the distribution of home loans to African Americans in California is not proportionate to their representation in the state. African Americans, Latinos and some Asian American groups are receiving a disproportionate number of home loans in relation to their representation in the state.³⁷

Table 1.2

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



Section 2: Low Income African American Homelending in California

African Americans earning less than \$41,000³⁸ in California received only 528 prime rate conventional home loans from the top seven lenders combined.

Best in total number of loans: Countrywide
Last in total number of loans: JP Morgan Chase

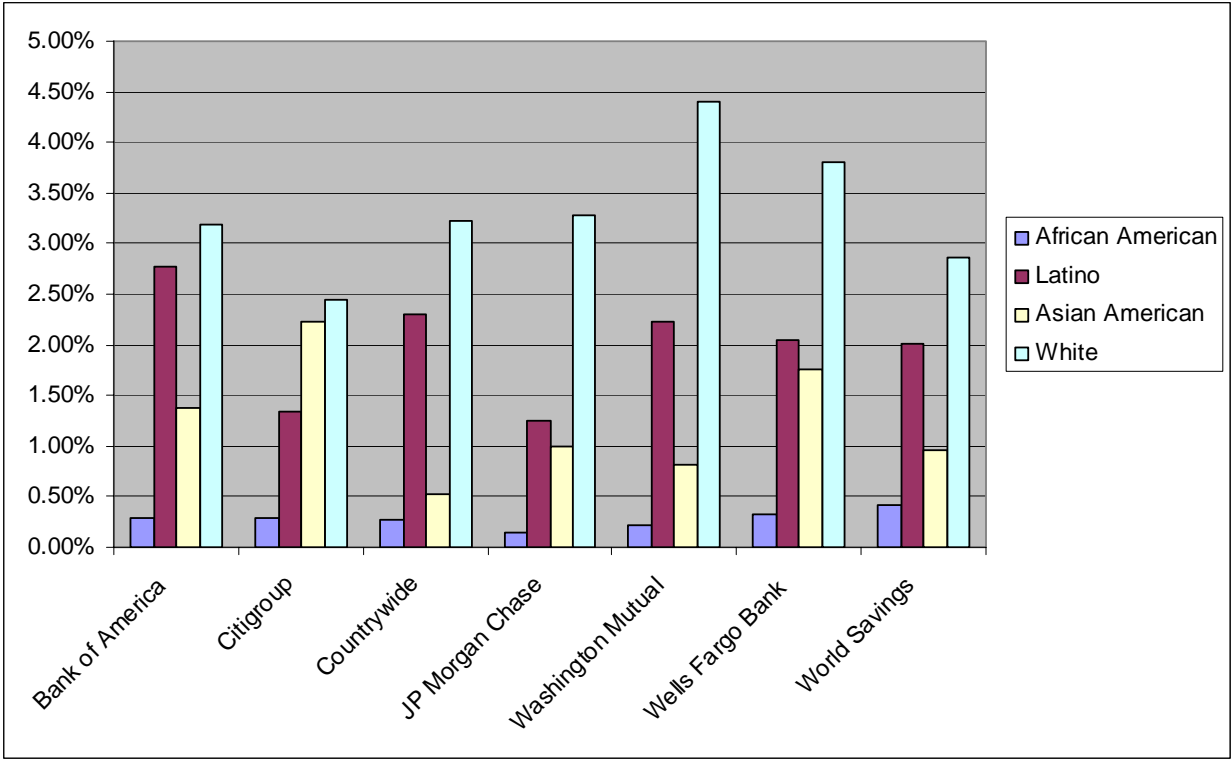
Of the largest home lenders in California, Countrywide ranked first in terms of the total number of loans made to low income African Americans in California. Countrywide made 154 of its prime rate loans to African American borrowers in California. In contrast, JP Morgan Chase ranks at the bottom with only 13 prime rate loans made to low income African Americans. (See Table 2.1)

Table 2.1

Conventional Home Loans Made to African Americans earning below \$41,000 in California³⁹

	# of loans	% loans	loans with race indicated
Countrywide	154	0.28%	55656
Wells Fargo Bank	93	0.33%	27915
Bank of America	83	0.29%	28216
Washington Mutual	83	0.21%	38628
World Savings	74	0.42%	17547
Citigroup	28	0.29%	9571
JP Morgan Chase	13	0.14%	9586

Table 2.2
Percentage of Home Loans Originated in California by Race/Ethnicity
and Institution to Low Income Borrowers



Section 3: Home lending to very low income African Americans in California

African Americans earning 50 percent or less of median income (\$25,600) received 48 prime rate home loans from all seven of the major lenders combined.⁴⁰

Best in total number of loans: Bank of America
Last in total number of loans: World Savings

Of the largest home lenders in California, Bank of America ranked first with the highest total number of loans made to very low income African Americans in California at 13 loans. In contrast, World Savings ranked at the bottom with only three loans made to very low income African Americans. (See Figure 3.1)

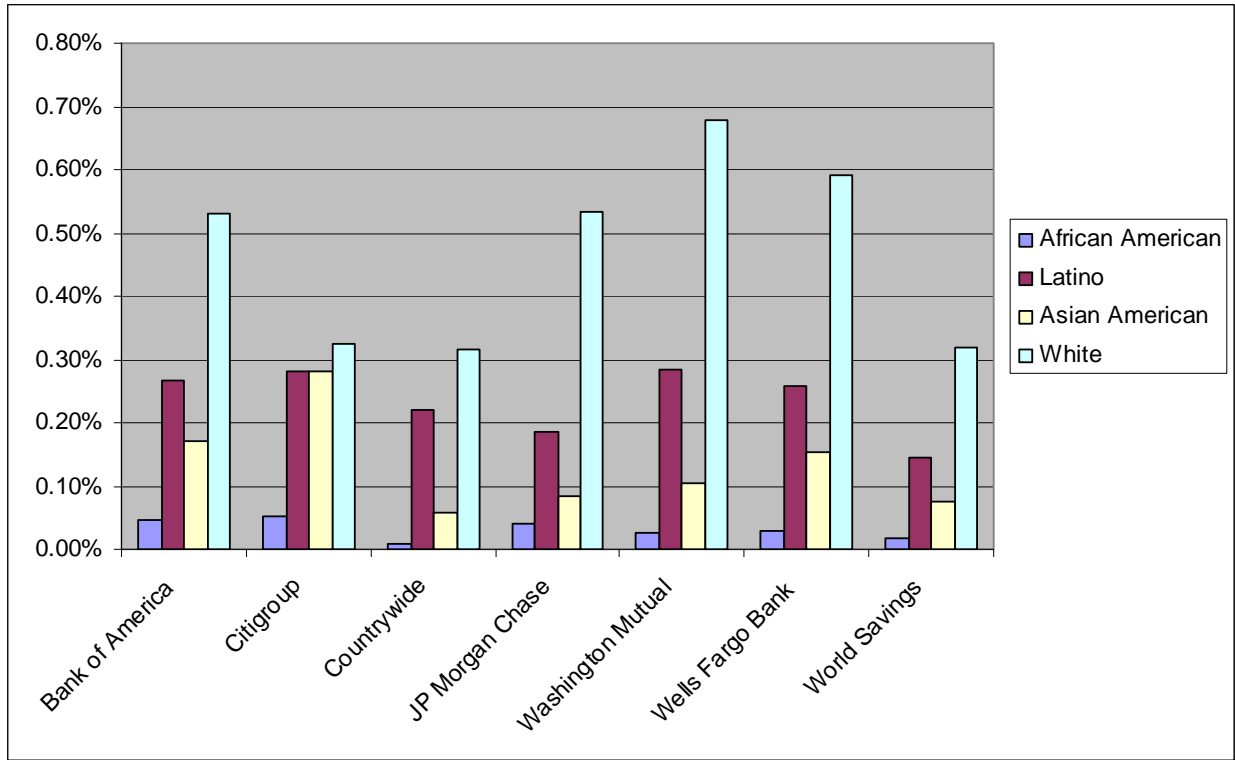
Figure 3.1

Conventional Home Loans made to African Americans in California earning \$25,600 or less -2004

	# of loans	% of loans	loans with race indicated
Bank of America	13	0.05%	28216
Washington Mutual	10	0.03%	38628
Wells Fargo Bank	8	0.03%	27915
Citigroup	5	0.05%	9571
Countrywide	5	0.01%	55656
JP Morgan Chase	4	0.04%	9586
World Savings	3	0.02%	17547

Figure 3.2

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



Section 4: Los Angeles, Long Beach, and Glendale

The Los Angeles/Long Beach area is home to over nine million people.⁴¹ There is great opportunity in this area for innovative housing development, especially with a mayor that is committed to the creation of affordable housing through mechanisms such as a \$100 million housing trust fund.⁴²

Best in proportion of loans: World Savings

Best in number of loans: Countrywide

Last in proportion of loans: Bank of America and Citigroup

Last in number of loans: Citigroup

The median income for a family of four in Los Angeles was \$53,500 in 2004 with a 1.8 percent increase to \$54,450 in 2005.⁴³ During the same time period, the median home price in Los Angeles increased 20.5 percent from \$415,000 to \$500,000.⁴⁴ The percentage of Angelinos able to afford a median priced home dropped from 5 percent to 2 percent from 2004 to 2005.⁴⁵ According to the Los Angeles Housing Department, only 39 percent of residents in the city of Los Angeles are homeowners.⁴⁶ African Americans in Los Angeles continue to receive a proportionally low number of conventional home loans. Countrywide led the major banks in the number of loans made to African Americans with 699 loans. (See Table 4.1) World Savings was the top in proportion of loans to African Americans with 6.8 percent. Three financial institutions, World Savings, Countrywide and Wells Fargo exceeded the industry average of 4.9 percent of conventional home loans made to African Americans in Los Angeles.

**Table 4.1
Conventional Home Loans made to African Americans in LA, Long Beach, Glendale in 2004⁴⁷**

	% of loans	# of loans	loans with race indicated
World Savings	6.8%	121	1779
Countrywide	5.7%	699	12304
Wells Fargo Bank	5.6%	213	3811
Washington Mutual	3.9%	310	7930
JP Morgan Chase	3.7%	80	2172
Bank of America	2.9%	142	4864
Citigroup	2.9%	66	2250
Industry Average and totals	4.9%	4732	95387

Low income African Americans in Los Angeles earned \$36,800 or less in 2004 according to the U.S. Census.⁴⁸ For low income African Americans living in Los Angeles, World Savings had the highest proportion of loans made to that community with 0.56 percent. World Savings and Washington Mutual also led all institutions by originating 10 home loans each to low income African Americans in Los Angeles.

Table 4.2
Conventional Home Loans made to African Americans in LA, Long Beach and Glendale earning \$36,800 or less—2004

	# of loans	% of loans	Loans with race indicated
Washington Mutual	10	0.13%	7930
World Savings	10	0.56%	1779
Wells Fargo Bank	8	0.21%	3811
Bank of America	5	0.10%	4864
Citigroup	5	0.22%	2250
Countrywide	5	0.04%	12304
JP Morgan Chase	4	0.18%	2172

Washington Mutual topped the list of lenders for originating four loans to very low income African Americans in Los Angeles. All of the seven major lenders combined made only six conventional home loans to very low income African Americans in Los Angeles.

Table 4.3
Conventional Home Loans made to African Americans in LA, Long Beach and Glendale earning less than \$23,000—2004

	# of loans	% of loans	Loans with race indicated
Washington Mutual	4	0.05%	7930
JP Morgan Chase	1	0.05%	2172
Citigroup	1	0.04%	2250
Bank of America	0	0.00%	4864
Countrywide	0	0.00%	12304
Wells Fargo Bank	0	0.00%	3811
World Savings	0	0.00%	1779

Section 5: Homelending by Area

Housing affordability in California has expanded from primarily affecting low income communities to impacting working class communities as well. African American low income and working class communities are adversely affected by rising housing costs. Across the state, working class and low income families saw their dreams of owning a home slip away as housing prices outpaced increases in median family income. Recently published data by the National Association of Home Builders/Wells Fargo Housing Opportunity Index (HOI) identified the top 40 least affordable U.S. housing markets. The top 9 out of 10 are located in California, with Salinas topping the list as the least affordable housing market in all of the United States. (See Table 5.1)

Table 5.1

Ten Least Affordable U.S. Housing Markets⁴⁹

	National Unaffordability Rank
Salinas, CA	1
Santa Barbara-Santa Maria, CA	2
Los Angeles-Long Beach-Glendale, CA	3
Santa Ana-Anaheim-Irvine, CA	4
Merced, CA	5
San Diego-Carlsbad-San Marcos, CA	6
Modesto, CA	7
Santa Cruz-Watsonville, CA	8
Stockton, CA	9
Nassau-Suffolk, NY	10

Fifteen additional communities in California made the least affordable list. California communities represented 60 percent of the 40 least affordable communities in the nation. For African Americans, the unaffordability of California's home prices is heightened by the disproportionately low percentage of loans made to African Americans in 2004. Figure 5.2 shows the percent of loans made in each metropolitan statistical area (MSA) to African Americans of all income levels, compared to African Americans as a percentage of each MSA. Financial institutions were not able to make a representative number of loans to African Americans in any major MSA. The rest of this section will detail information for the following MSA's: Fresno, Los Angeles, Oakland, Orange County, Sacramento, San Diego, San Francisco and San Jose.

Figure 5.2

Conventional Home Loans Made to African Americans, All Incomes by MSA—2004

	% of all Loans Made to African Americans in MSA	African Americans as % of population in MSA	Total # of Loans to African Americans in MSA	Total # of Loans made in MSA
Fresno	2.31%	4.80%	204	8814
Los Angeles	4.97%	9.00%	4732	95287
Oakland	5.13%	12.00%	2192	42752
Orange County	0.87%	1.50%	320	36946
Sacramento	3.51%	10.30%	1379	39332
San Diego	2.24%	5.30%	842	37652
San Francisco	0.92%	6.50%	194	21050
San Jose	1.30%	2.40%	358	27530
All California	3.00%	6.20%	15345	583398

Fresno

In 2004, the median home price in Fresno was \$243,000 while the median family income was \$45,900. By March 2005, the median home price in Fresno had already risen to \$324,640, a 33.6 percent increase. According to the California Budget Project, the income needed to purchase a median priced home in Fresno County is \$65,451, leaving a gap of \$31,822 between the income needed to purchase a median priced home from the area median income.⁵⁰ Between September 2004 and 2005, the percentage of people living in Fresno that could afford a median priced home dropped from 27 percent to 19 percent.⁵¹

African Americans living in Fresno make up almost 5 percent of the population, but received only 2.3 percent of conventional home loans in the area.

Oakland⁵²

From December 2004 to year end 2005, Oakland’s median home price increased by 16.8 percent, from \$475,000 to \$555,000.⁵³ In that same time period, Oakland’s median family income decreased from \$82,000 to \$81,000. The increasing home price in the midst of a decreasing median income led to a decrease in affordability. In 2004, 16.8 percent of Oakland could afford a home, in 2005, only 9 percent of the population in Oakland could afford a home.⁵⁴ Although African Americans make up around 12 percent of Oakland’s population, only 5.1 percent of all conventional home loans made in the area were made to African Americans.

Orange County

In 2004, the median home price in Orange County was \$512,208 while the median household income was \$64,416. Because of the gap between the median home price and median household income, only 11 percent of the people living in Orange County could afford a home. Despite making up 1.5 percent of the population, African Americans received only 0.87 percent of conventional home loans originated in Orange County. The median home price in Orange County rose 126 percent between 1999 and 2004, while the

median household income only increased 9.5 percent in the same time period. From December 2004 to 2005, Orange County's median home price rose another 15.1 percent.⁵⁵

Sacramento

As one of the fastest growing counties in the nation, Sacramento's median home price in 2004 was \$287,672, by the first quarter of 2005, the price rose to \$357,360, a 24 percent increase. The median home price in Sacramento County rose 131.1 percent from 1999-2004. In the same time period, median income only rose 13.3 percent, from \$43,816 to \$49,632.⁵⁶ African Americans represent 10.3 percent of the population in Sacramento County but received only 3.51 percent of conventional home purchase loans made in the area.

San Diego

From 2003 to 2004, the median price of a home in San Diego rose 21.1 percent to \$459,000. During the same time period, the median family income rose only 8.4 percent, from \$47,067 to \$51,012. African Americans represent 5.3 percent of the population of San Diego County but received only 2.24 percent of conventional home purchase loans made in the area. Relief from exponentially increasing housing costs may be near as the median home price in San Diego County rose by only 4 percent from 2004 to 2005.⁵⁷

San Francisco

In San Francisco, the median home in 2004 sold for 4.2 times median income. The from 2003 to 2005, median income rose from \$55,221 to \$60,031 for an 8.7 percent increase. In that same time frame, the median value of a home rose from \$396,400 to \$661,904 resulting in a 67 percent increase. African Americans represent 6.5 percent of the area's population but received not even 1 percent of the conventional home purchase loans made in the area. In 2005, median home prices rose another 10.3 percent according to the California Association of Realtors.

San Jose⁵⁸

In San Jose, African Americans make up 2.4 percent of the population but received only 1.3 percent of conventional home loans originated in the area. From 2004 to 2005, median home prices in the area rose from \$550,000 to \$645,000, a 17 percent increase.⁵⁹ In the same time period, median family income fell from \$105,000 to \$93,900.⁶⁰ This drop in income in the face of rising home prices left only 14 percent of the population able to afford a home in 2005, compared to 25 percent in 2004.⁶¹

Recommendations

The state, under the leadership of the Governor and a bipartisan state legislature, should take immediate action to resolve California's housing crisis.

This report details the six policy areas that the Governor and legislature should prioritize in order to have a positive impact on the state's housing supply.

1. Increase fiscal incentives for local governments to meet housing demands

The state should develop an alternative tax system that will be revenue-neutral, but create a compelling incentive for local governments to plan and implement their fair share of housing obligations. Another way to increase incentive for communities to meet their housing needs is for the state to link future funding sources such as Governor Schwarzenegger's recently proposed \$222 billion public works plan to a community's progress in meeting their housing needs.

2. Reform the California Environmental Quality Act (CEQA)

The state should reform CEQA by creating strong exemptions for workforce housing, especially in areas that are covered by inclusionary zoning policies and urban growth boundaries. Jurisdictions that can not meet their fair share housing allocation should also qualify for strong exemptions under CEQA. Affordable housing must be recognized as an integral part of a healthy environment and should be treated as such under CEQA. Affordable housing development that is near mass transit or major employment areas should be given special consideration.

3. Streamline Affordable Housing Funds

Nonprofit developers, the state's largest producers of affordable housing, commonly require ten to twelve public and private funding sources per project.⁶² The labor-intensive process of identifying funding sources and creating and submitting necessary applications in order to obtain funding is expensive and creates costly delays. The recent opening of an affordable senior housing center in San Francisco reportedly took nine years to complete, with seven of those nine years spent navigating the maze of requirements and ordinances needed to build.⁶³ A more streamlined application process will help developers increase the housing supply in a timely manner.

4. Create permanent funding for California's Housing Trust Fund

Currently, California has a Housing Trust Fund that only provides matching funds. The fund was initially created through the \$2.1 billion in bonds from the 2002 passage of Proposition 46. These funds are projected to be exhausted by 2007, and the creation of a permanent fund will provide stability. Methods to raise such funds include a real estate transfer fee tied to the assessed value of the property. It is estimated that with a transfer tax of \$1 per \$1000 of value, California could generate approximately \$565 million annually. Another method to raise funds include a document recording fee, if California enacted a document recording fee of \$40 on real estate recordings, it could generate \$513 million annually.⁶⁴ Recently, the Governor proposed a \$68 billion bond measure that included no funds for affordable housing. Democratic Senate leader Don Parata has unveiled a set of bond measures that include \$1.4 billion for housing programs and \$775 million for infill planning and capital projects.⁶⁵ Greenlining believes that any investments in infrastructure should address affordable housing and provide capital to support urban infill housing development.

5. State leadership for a cohesive development framework: 20 Year Land Supply and Housing Element Enforcement

Currently each local planning jurisdiction sets individual goals for housing. The State should be at the forefront of requiring each local planning entity to plan for and provide sufficient housing to match the expected population and job growth for the next 20 years. Requiring each jurisdiction to provide sufficient land for housing in their general plans and zoning ordinances with incentive for housing located near transit and in dense, multi-use developments will help California plan for future housing needs. Incentives, enforcements mechanisms and reduction of disabling legislation should be developed in order to ensure adherence.

6. Enact Brownfields Development Reform

Under the leadership of Governor Schwarzenegger, Cal/EPA (California Environmental Protection Agency) has a unique opportunity to vastly improve the Brownfields landscape for all California communities. This goal can be achieved by simply bringing basic good government principles of transparency and accountability to encourage the cleanup and redevelopment of Brownfields. California should adopt the following administrative practices and create a more level playing field for Brownfield projects in all California communities.

- *Practice Transparency and Disclose Approved Cleanup Standards.* The main goal of this effort is to provide immediate factual information about site cleanup requirements that have been approved in the recent past under existing state laws to the broadest possible range of California communities. We can then have an informed debate about how to create a more transparent, consistent, and level playing field for similarly-situated sites (i.e., sites with similar contaminants, risk pathways, and reuse plans).⁶⁶
- *Assure Compliance with Senate Bill 32 (Escutia).* Simply requiring the Cal/EPA toxicologists to comply with the clear mandate in Senate Bill 32 will assist all California agencies, as well as the many other stakeholders involved in Brownfields projects, in more efficiently managing and funding cleanups, with no new expenditures of state funds. Prior efforts by a consortium of over 150 community based groups led to the enactment of Senate Bill 32 (Escutia), which among other features directed Cal/EPA to develop site screening levels for 54 common contaminants in soils, to serve as guidelines for future cleanup decisions.
- *Secure financing for the clean-up of Brownfields properties.* State leaders should consider the possibility of passing a bond that dedicates revenue for actual site clean-ups throughout the state with priority going to clean-up in low-income and distressed areas.

Conclusion

Without planned and strategic action, the shortage of housing in California will only worsen. As this report contends, financial institutions are an important vehicle for homeownership, but rising prices and low supply are also grave issues. In this report, Greenlining calls Governor Schwarzenegger, the legislature and local government to action. State and local government action to increase incentive for Brownfields and infill development will help alleviate California's housing shortfall. Refocusing tax initiatives towards housing development and away from "Big-Box" development will be an investment in California's communities and the economic future of our state. Innovative state leadership and partnerships with local communities and developers could help solve California's affordable housing crisis and move more African American families towards the American dream of homeownership.

Equally important, the state's seven largest lenders, joined by Fannie Mae and Freddie Mac, must escalate their efforts to create affordable home lending and truly close the minority homeownership gap.⁶⁷

Appendix: Comments by the Lenders

All of the institutions included in this study were invited to respond to Greenlining's report in advance of its publication. Two institutions, Washington Mutual and Wells Fargo supplied statements which are attached in its unedited format.

Washington Mutual

Thank you for providing Washington Mutual with Greenlining's analysis of prime conventional home purchases made to African-Americans in California in 2004. We appreciate the opportunity to review and comment on "Left Behind: The Reality of African American Homeownership in California."

We agree with Greenlining that there are significant factors that impact potential homeownership in California. They reflect a combination of factors, including the escalation in median home prices linked with a much-lower rise in median family income - which contributes to making homes purchases less affordable for applicants. This situation applies to all Californians, including those who are members of racial and ethnic minority groups as well as those who have low-to-moderate incomes.

At Washington Mutual, we have increased our prime conventional home lending in California to African-Americans from 2003 to 2004 - from 1.8% to 2.2%, respectively. While we rank in the middle of 2004 results when compared to other major financial institutions, we accept the challenge of improving our performance so that, within the next five years, we will become a "Top Three" mortgage originator to diverse communities in California (as measured as a percent of total), particularly African-Americans and Hispanics, and borrowers whose incomes are less than 80% of area median income. As a company, we have a long-term goal of improving our market share among multi-cultural communities to closely mirror our overall market share.

I would like to provide some specific information about products and services that were available in California in 2004 as they pertained to members of racial and ethnic minority groups, including African-Americans and other diverse communities.

In 2004, Washington Mutual continued its outreach to its traditionally underserved communities in California through both our Community Access™ Home Loans program (our proprietary suite of affordable home loan products) and the Johnson Development Corporation (JDC) Initiative. This lending activity was complemented by our homebuyer education classes, our financial education-focused *WaMoola for L.I.F.E.*™ program, and Individual Development Account efforts, which we have described in previous correspondence to Greenlining.

Regarding our 2004 Community Access performance in California, I am pleased to report the following:

- California – as it did in 2003 – ranked first in overall lending volume, on both an origination and dollar volume basis. Of the total number of loans made, 22% (more than 1,700) occurred in the state. This resulted in \$380.3 million in home mortgages to Californians, including home purchases and refinances.
- 34% of the borrowers had low-to-moderate incomes (LMI).
- 56% of the originations occurred in LMI census tracts.
- There was significant participation by racial and ethnic minority borrowers in Community Access.

From an historical perspective, Greenlining should also be aware that California ranked first in 2002, 2003, and 2004 in terms of both dollar volume and number of originations. During this period about \$1.3 billion in Community Access loans occurred in California, an amount that represented nearly one-third (32%) of national production.

Having updated you about the status of our nationally-recognized Community Access program, I would like to provide Greenlining with information about Washington Mutual's JDC Initiative, our partnership with the Johnson Development Corporation to increase minority homeownership in urban communities nationwide. Launched in 2003, the Initiative's business model features employing staff from the community and educational tools and programs that focus on the development and teaching of homebuyer education and financial workshops in the community.

Washington Mutual expanded the geographic scope of its JDC Initiative in 2004, with new home loan centers opening in Rialto, Oakland, and San Francisco (in addition to the three in greater Los Angeles). We are pleased with the progress of our Initiative nationwide and in California, and are hopeful to have continued success in our outreach efforts to racially and ethnically diverse customers. Thus far, 2003 and 2004 results were encouraging, as nationally more than 5-in-10 of our JDC borrowers were African-American.

Before ending, I would like to add that we are involved with the CalHFA state bond product, which helps address the issue of high cost markets by enabling more low-to-moderate income borrowers become homeowners. The program is designed to enhance affordability and homeownership opportunities by offering below-market, fixed-rate loans. It is intended for first-time homebuyers who meet specific low-to-moderate income limits and are purchasing a new or existing home anywhere in California. There are five main programs which offer the following:

- Favorable interest rate loans for eligible teachers and other education-related personnel like administrators, staff members, and classified employees to purchase their first home.
- High-cost area home purchasing assistance
- Down payment assistance (including for closing costs)
- Housing assistance (by offering a deferred-payment junior loan)
- A governmental housing partnership program between CalHFA, governmental bodies like municipalities and counties and redevelopment agencies, and housing authorities. (Under this program, a payment subordinated loan from a municipality is utilized by first-time homebuyers to assist them with down payments and/or closing costs.)

We appreciate the opportunity to comment on "Left Behind" as well as the partnership and dialogue that our organizations have developed over the years.

Susan James
Senior Vice President and Manager
Community Performance Resources

Wells Fargo

First, we would like to thank Greenlining for the opportunity to comment and especially for recognizing that Wells Fargo has “shown the type of visionary and active leadership likely to eventually close the minority homeownership gap.” (footnote to Conclusion, p. 21). We also commend Greenlining for recognizing that the report does not show that discrimination is a factor in loans to African-Americans. (Preface, p. 3).

As the report states, the real issue in California is housing affordability and availability. This is an issue that goes beyond what Wells Fargo and other lenders can accomplish by themselves. We appreciate Greenlining’s efforts to increase homeownership and we, like Greenlining, are not satisfied with the current situation. We do not have all the answers and we welcome an ongoing dialogue with Greenlining on how all entities – private, public and non-profit – can work together to increase the availability and affordability of homes.

At Wells Fargo, we are making progress in our ability to provide home loans to minority and lower income borrowers. Last year we opened 12 culturally themed branches to serve diverse customers in California in Salinas, Oakland, Union City, Milpitas, San Jose, National City, El Centro, Apple Valley, Fontana, Huntington Park, Diamond Bar, and San Diego. We also hired more diverse home mortgage consultants. Finally, our Emerging Markets division will soon offer an enhanced version of a program designed to meet the needs of diverse homebuyers. This program overcomes many of the perceived barriers to homeownership including lack of funds for a down payment, non-traditional or less-than-perfect credit histories and affordability misconceptions.

We have much upon which to build. As part of our initiatives to educate African-Americans on homeownership, in 2005 Wells Fargo provided 20 seminars from coast to coast that offered guidance for potential customers. Eight seminars featured a keynote address by national talk-show host and author Tavis Smiley. The Los Angeles seminar drew more than 500 and in San Francisco more than 600 people attended.

Also last year, we made 48 CRA-qualified investments in California totaling \$57.6 million. In 2004 we made 50 investments for a total of \$117 million. In addition, we donated close to \$2 million to 190 organizations that support affordable housing for California’s low- to moderate-income residents.

Nationally, from 2001 to 2004 Wells Fargo was proud to be the nation’s leading originator of home loans to minority customers, low- and moderate-income customers, and customers in low- and moderate-income neighborhoods. As a fair and responsible lender, we work every day to help customers across a diverse spectrum achieve financial success through homeownership. We look forward to continuing to work with Greenlining to reach the goal of placing homeownership within everyone’s grasp

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- ¹ Estimated using U.S. Census American Communities Survey Occupied Housing Units estimate
- ² Estimated using California Property Tax Levies (2002-2003) and US Census American Communities Survey information.
- ³ Based on Sacramento Regional Research Institute's study *Economic Benefits of Housing 2004*.
- ⁴ Rankings based on home loans to very low income borrowers were not used because of the startlingly small number of loans originated.
- ⁵ Less than 80 percent median income according to US Census 2004.
- ⁶ Less than 50 percent median income according to US Census 2004.
- ⁷ US Census 2004 and California Building Industry Association study, "Homeownership in California" March 22, 2006.
- ⁸ US Census 2004
- ⁹ National Urban League. *The State of Black America 2005*.
- ¹⁰ National Urban League. *The State of Black America 2005*.
- ¹¹ California Association of Realtors
- ¹² National Association of Realtors
- ¹³ California Department of Housing and Community Development. *California's Housing Needs*.
- ¹⁴ California Department of Housing and Community Development. *California's Housing Needs*.
- ¹⁵ 2004 American Community Survey, US Census.
- ¹⁶ California Association of Realtors. *2006-2007 Housing Market and Membership Forecast*. August 12, 2005.
- ¹⁷ Ibid.
- ¹⁸ This non-effort is surprising in light of JP Morgan Chase's \$800 billion, ten year commitment to low income, minority communities made in 2004.
- ¹⁹ California Association of Realtors (C.A.R.) Press Release Thursday, January 12, 2006.
- ²⁰ U.S. Census Bureau, Statistical Abstract of the United States: 2003.
- ²¹ *Rebuilding the Dream: Solving California's Affordable Housing Crisis* Little Hoover Commission, May 2002.
- ²² Construction Industry Research Board, California Construction Review, May 21, 2005.
- ²³ Construction Industry Research Board
- ²⁴ California Department of Housing and Community Development. *California's Housing Needs*.
- ²⁵ Scott Turner, Community Affairs Department, Federal Reserve Bank of San Francisco, *Community Development Needs and Resources*. Accessed online: <http://www.frbsf.org/publications/community/investments/0501/needs.html>
- ²⁶ Legislative Analyst's Office, *Cal Facts 2004: California's Economy and Budget in Perspective*. Accessed online: http://www.lao.ca.gov/2004/cal_facts/2004_calfacts_econ.htm
- ²⁷ U.S. Census Bureau 2000 and 2004.
- ²⁸ *Expanding Opportunity: New Resources to Meet California's Housing Needs*. PolicyLink Winter 2005
- ²⁹ Sacramento Regional Research Institute. *The Economic Benefits of Housing in California*.
- ³⁰ Federal Financial Institutions Examination Council. *History of HMDA*. Accessed online at www.ffiec.gov/hmda/history2.html.
- ³¹ Gee, Peter. *The Price of Credit: Prime and Subprime Lending in California 2004*. September 2005
- ³² U.S. Department of Housing and Urban Development. *History of FHA*. Accessed on website. www.hud.gov/offices/hsg/fhahistory.cfm.
- ³³ Garret, Scott. *Scandals Waiting to Happen*. Wall Street Journal November 17, 2005.
- ³⁴ Kopecki, Dawn. *Greenspan Seeks to Recast Debate on Fannie and Freddie Portfolios*. Wall Street Journal January 20, 2006.
- ³⁵ U.S. Census Bureau; Census 2004, California Factsheet; <http://factfinder.census.gov>; (20 February 2004)
- ³⁶ Industry average indicates the number and percentage of conventional, prime rate home loans originated to African Americans in California in all income categories. www.ffiec.gov/hmda
- ³⁷ Greenlining will be publishing a similar homelending report on Latino homeownership. For more information, please refer to page 2 of this report.
- ³⁸ \$41,000 is defined in the 2004 U.S. Census as less than 80 percent of median income. Greenlining's definition of "low" income is between 79 and 50 percent of median income, which is between \$41,000 and \$25,500 according to the 2004 U.S. Census.
- ³⁹ Conventional home loans made to African Americans earning below \$41,000 and over \$25,600.
- ⁴⁰ \$25,600 is defined in the 2004 U.S. Census as less than 50 percent of median income. Greenlining's definition of "very low" income is below 50 percent median income.
- ⁴¹ 2004 U.S. Census

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- ⁴² New York Times. “Problem of Homelessness in Los Angeles and Its Environs Draws Renewed Calls for Attention” January 15, 2006
- ⁴³ The NAHB/Wells Fargo Housing Opportunity Index: Complete History by Metropolitan Area (1991-Current) published February 23, 2006. Using 4th quarter 2004 and 4th quarter 2005 comparisons for Los Angeles-Long Beach-Glendale MSA.
- ⁴⁴ *ibid*
- ⁴⁵ *ibid*
- ⁴⁶ Los Angeles Housing Department: Affordable Housing Commission. January/February 2004 public presentation
- ⁴⁷ MSA 31084
- ⁴⁸ This represents people earning less than 80 percent of the area’s median income according to the U.S. Census 2004.
- ⁴⁹ From California Building Industry Association:
[http://www.cbia.org/documents/public/HOI%20Top%2040%20\(1\).pdf](http://www.cbia.org/documents/public/HOI%20Top%2040%20(1).pdf)
- ⁵⁰ *Making Ends Meet: How much does it cost to raise a family in California?* California Budget Project, November 2005.
- ⁵¹ California Association of Realtors. C.A.R. Housing Affordability Index.
- ⁵² Oakland-Fremont-Hayward MSA (36084) defined by the US Census
- ⁵³ The NAHB/Wells Fargo Housing Opportunity Index: Complete History by Metropolitan Area (1991-Current) published February 23, 2006.
- ⁵⁴ *ibid*
- ⁵⁵ California Association of Realtors. December 2005 Median Home Prices.
- ⁵⁶ U.S. Census
- ⁵⁷ California Association of Realtors. December 2005 Median Home Prices.
- ⁵⁸ San Jose, Sunnyvale, Santa Clara (MSA 41940)
- ⁵⁹ California Association of Realtors. December 2005 Median Home Prices
- ⁶⁰ The NAHB/Wells Fargo Housing Opportunity Index: Complete History by Metropolitan Area (1991-Current) published February 23, 2006.
- ⁶¹ *ibid*
- ⁶² *Rebuilding the Dream: Solving California’s Affordable Housing Crisis* Little Hoover Commission, May 2002.
- ⁶³ Eugene Coleman Community House. TODCO Housing Development, San Francisco, CA.
- ⁶⁴ *Expanding Opportunity: New Resources to Meet California’s Housing Needs*. PolicyLink, Winter 2005
- ⁶⁵ “Who’s in the Driver’s Seat” handout by Senator Perata’s staff presented at the February 1, 2006 Social Equity Caucus.
- ⁶⁶ More information on Brownfields policies can be drawn from the study, *A Brownfields-based Solutions for Los Angeles County’s Housing Crisis*. 2004. University of Southern California Center for Economic Development, School of Policy, Planning and Development.
- ⁶⁷ Two of these seven, Bank of America and Wells Fargo in particular, have shown the type of visionary and active leadership likely to eventually close the minority homeownership gap. JP Morgan Chase in particular, has been absent in terms of leadership, despite its \$800 billion, ten year commitment to minority and low income communities made in 2004.

The Greenlining Institute's Mission is to empower communities of color and other disadvantaged groups through multi-ethnic economic and leadership development, civil rights, and anti-redlining activities

The Greenlining Coalition

Allen Temple Baptist Church	Latino Issues Forum
American G.I. Forum	Mexican American Grocers Association
Asian Business Association	Mexican American Political Association
Asian Enterprise	Minority Business Council
Black Business Association	Mission Language & Vocational School
California Hispanic Chambers of Commerce	Mothers of East Los Angeles
California Journal	National Asian Pacific Publishers
California Rural Legal Assistance	National Black Business Council, Inc.
CHARO	National Council of Asian American Business Associations
Chicano Federation, San Diego	National Federation of Filipino-American Associations
Council of Asian American Business Associations	OCCUR
Filipino-American Chamber, L.A.	San Francisco Black Chamber
Filipino-American Political Association	Search to Involve Pilipino-Americans
First AME Church, Los Angeles	Southeast Asian Community Center
Greater Phoenix Urban League	TELACU
Hernandad Mexicana Nacional	The Unity Council
Hispanic Chamber, Orange County	Vietnamese Community of Orange County, Inc.
Hmong-American Political Association	West Angeles Church of God in Christ
Japan Pacific Resources Network	West Coast Black Publishers
La Maestra Family Clinic	
Latin Business Association	



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