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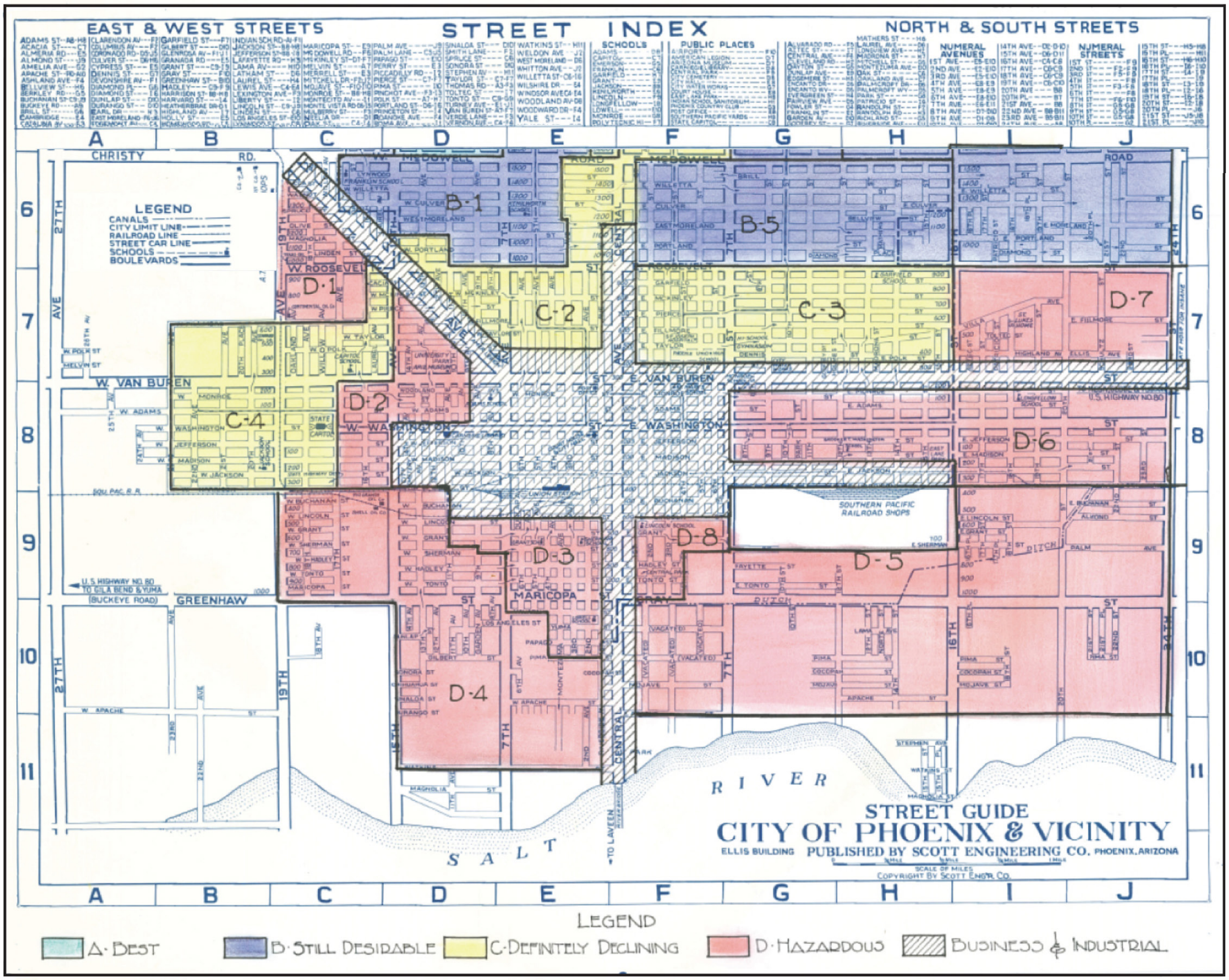
A Brief History of Housing Policy and Discrimination in Arizona



Authored by:

Katie Gentry, Research Analyst
Alison Cook-Davis, Associate Director of Research
Morrison Institute for Public Policy

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Introduction

The present-day factors that determine where and how one can buy a home are influenced by historical public policy choices. Past policies encouraged white homeownership, protected white people from economic downfall, and created segregation between white people and people of color. Although some policies have tried to reverse these practices and racial integration has drastically increased, the past still weighs on the present housing landscape of Arizona.

This brief investigates how past policy choices in the United States and Arizona have shaped the housing landscape, the current limits on homeownership, and policy solutions to overcome these challenges.

Encouraging White Homeownership

In 1917, the National Association of Real Estate Boards started a public relations campaign, "Own-Your-Own-Home," targeting white families to buy property to stimulate the economy.[1] The program was taken over by the U.S. Department of Labor and became the first federal program advocating for homeownership.[2] Although the program was only promotional, and there were no financial incentives to participate, the program specifically highlighted how it was white families' "patriotic duty" to purchase a home and how happy they would be after purchasing.[3]

The homeownership surge following World War I stopped short when the Great Depression hit in 1929. The average income fell by 41% between 1929 and 1932, resulting in borrowers' inability to pay off their loans.[4] By 1934, approximately 50% of urban mortgages were in default.[5] As a result, Arizona issued a state mortgage moratorium that stopped foreclosures until federal relief was made available.[6]

Beginning in 1932, the federal government stepped in and created the Federal Home Loan Bank System, becoming a lender to private institutions so these businesses could continue to loan money.[7] Additionally, in 1933, the Home Owners' Loan Corporation (HOLC) was created. HOLC purchased foreclosed properties and delinquent mortgages and then refinanced those mortgages under new terms on behalf of prior property owners who proved they could pay the mortgage moving forward.[8] HOLC changed the way loans were structured, extending the life of the loan to 15 years with a fixed interest rate, making mortgages affordable and less subject to default.[9] The National Housing Act of 1934 was passed and created the Federal Housing Administration (FHA).[10] The FHA insured mortgages at the federal level, allowing lenders to offer more mortgages at better rates. In addition, the FHA only required a 20% down payment rather than the 50% down payment previously needed.[11] Finally, in 1938, Congress created the Federal National Mortgage Association, known as Fannie Mae.[12] Fannie Mae bought mortgages from lenders, creating more cash flow for banks so that lending could continue.[13] All of these policy changes — creating more cash flow for lending, modifying loan structure, and requiring less money down — encouraged homeownership coming out of the Great Depression.

The next homebuying push came near the end of World War II when Congress passed the G.I. Bill of Rights, which provided veterans with increased access to homeownership in addition to opportunities for education and unemployment benefits.[14] Between 1944 and 1952, veterans received almost 2.4 million low-cost home loans backed by the Veterans Administration.[15] Although not explicitly discriminatory, the program accommodated Jim Crow laws enforced by state and local governments, making it difficult for returning Black service members to access education, unemployment, and home loans.[16] Of the $120 billion in new housing subsidized by the federal government between 1934 and 1962, less than 2% went to people of color.[17]

While the federal government aided white communities, communities of color were not given loans. Because of this discriminatory system, most Black and Hispanic families had to buy homes on contract, with an installment plan.[18] If families defaulted on the contract, they lost everything.[19] Likewise, if the family sold the home before they paid off the entire contract amount, they lost all their equity. As a result, these families remained in homes despite declining neighborhoods.[20]

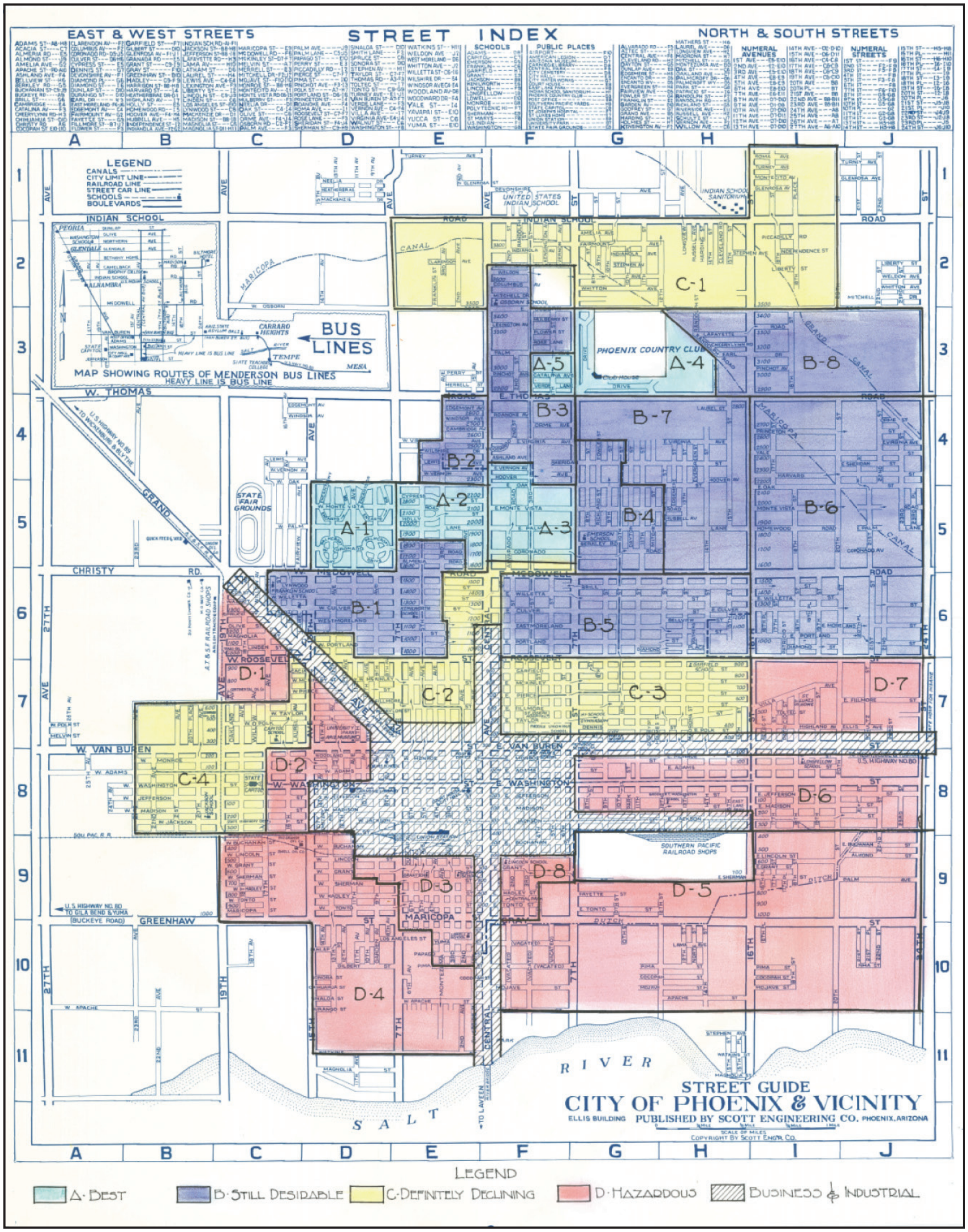
Segregation Between White People and People of Color

Explicit racial segregation also played a role in the housing landscape. Arizona didn't start segregated. The largest cities were just over 10,000 people, and the few white residents intermingled with Native Americans and people of Mexican origin.[21] However, that began to change when the Civil War broke out. From 1861 to 1865, the southern part of Arizona, including Tucson, was under the control of the Confederacy.[22] In Confederate Arizona, intermingling stopped, and the population of white people increased.[23] White people came to control the state's primary industries — mining and farming — and as a result, economic disparities became more pronounced between communities of color and white communities.[24] Because white people headed the economy, they began to dominate politics and passed laws that further marginalized people of color.[25]

In 1921, segregation became more pronounced when Herbert Hoover became the U.S. Secretary of Commerce and encouraged exclusionary zoning.[26] Hoover organized a national advisory committee on zoning regulations that could be enforced at local levels. In 1924, the U.S. Commerce Department published the Standard State Zoning Enabling Act, which became a model for zoning regulations.[27] Arizona passed laws based on the act, allowing local jurisdictions to condone racial and ethnic segregation.[28]

The segregation created by zoning only became more evident when, in 1935, HOLC made residential security maps that illustrated the riskiness of neighborhoods for lending purposes.[29] These maps rated neighborhoods on an "A" to "D" scale, with "A" being the best places to live. More often referred to today as redlining maps, the FHA used these maps to determine who and where loans would be granted. The maps considered the racial makeup of the neighborhood and the likelihood the neighborhood would remain stable.[30] The redlining maps ensured that virtually no loans went into neighborhoods that included Black residents and favored suburban construction over urban housing. The only redlining map created for Arizona surrounded downtown Phoenix.[31]

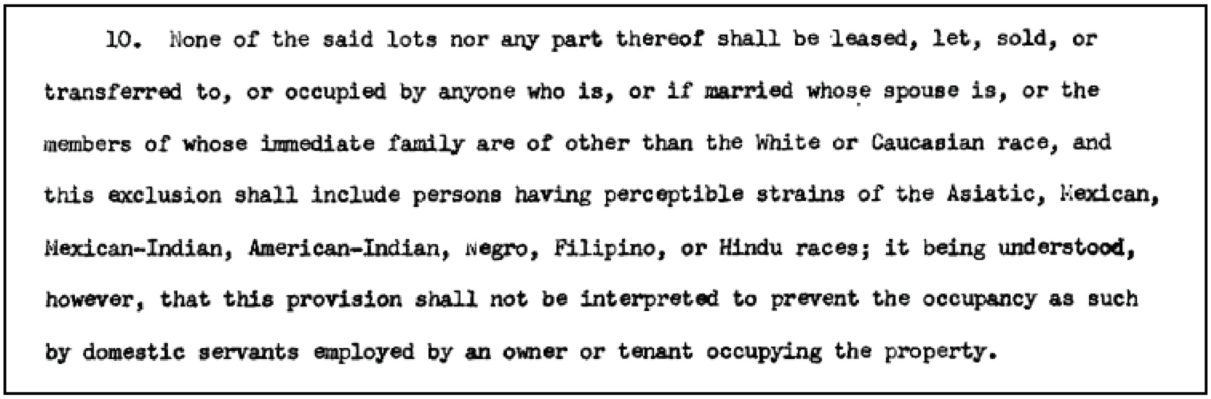
Phoenix Redlining Map, 1935



Source: R. Nelson et al., "Mapping Inequality," in *University of Richmond*, accessed May 25, 2021, https://dsl.richmond.edu/panorama/redlining/#loc=13/33.463/-112.128&city=phoenix-az.

The FHA discouraged "inharmonious communities," and the Underwriting Manual for the FHA even went as far as recommending the use of restrictive covenants on home deeds, stating they would "prove more effective than a zoning ordinance in providing protection from adverse influences."[32] Racial restrictive covenants in home deeds commonly stated that a white homeowner could only sell their home to another white person. Some restrictive covenants went as far as explicitly identifying the race and ethnicity of people who could not be purchasers. For instance, a deed in Maricopa County said that "exclusion shall include persons having perceptible strains of the Asiatic, Mexican, American Indian, Negro, Filipino, or Hindu races."[33] In 1917, the U.S. Supreme Court ruled in *Buchanan v. Warley* that racial segregation in real estate purchases was illegal, making racial covenants invalid, but the ruling was not widely enforced.[34] Racial restrictive covenants were present in Arizona as early as 1913, though they were not encouraged until the mid-1930s by the FHA. They remained common until the mid-1950s.[35]

Racial Restrictive Covenant in Maricopa County Home Deed, 1948



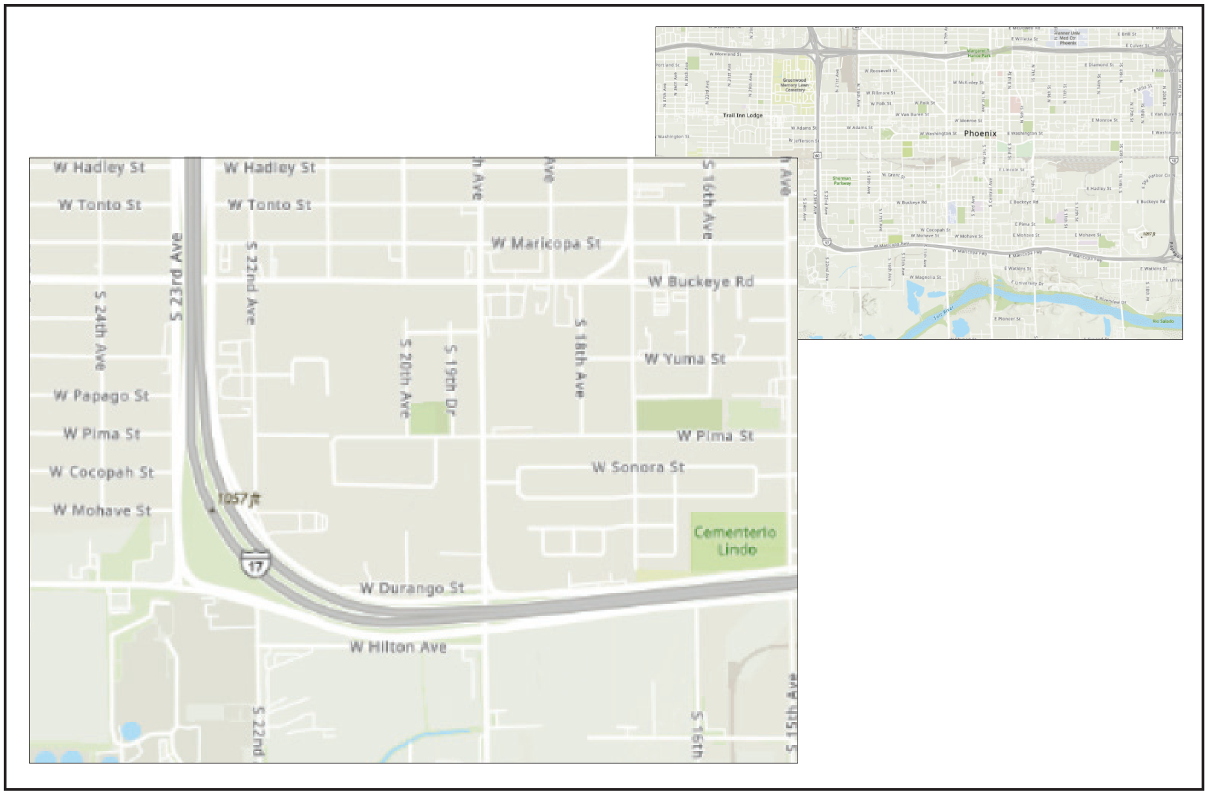
10. None of the said lots nor any part thereof shall be leased, let, sold, or transferred to, or occupied by anyone who is, or if married whose spouse is, or the members of whose immediate family are of other than the White or Caucasian race, and this exclusion shall include persons having perceptible strains of the Asiatic, Mexican, Mexican-Indian, American-Indian, Negro, Filipino, or Hindu races; it being understood, however, that this provision shall not be interpreted to prevent the occupancy as such by domestic servants employed by an owner or tenant occupying the property.

Source: Maricopa County, "Recorded Document Search," accessed April 21, 2021, https://recorder.maricopa.gov/recdocdata/default.aspx.

By the 1950s, Native Americans were encouraged to move to the cities and away from reservations where they were previously segregated.[36] The Bureau of Indian Affairs helped families to locate their first home and job.[37] However, Native American families were given a minimal relocation subsidy and with limited income, often ended up living in lower-class neighborhoods.[38] These lower-class neighborhoods were often in urban areas, which were subject to overcrowding, less frequent garbage pickups, and lack of access to public services, such as water and sewer.[39] The lack of services created slum conditions. White people blamed the poor conditions on the residents — people of color, which in addition to Native Americans included Black and Hispanic residents — rather than the real cause: discriminatory government policies.[40] Beginning in 1949, the government acknowledged the run-down communities and passed the American Housing Act, giving funding to local municipalities to revitalize urban areas and clear blight.[41] The clearance and redevelopment included over 360,000 acres of land and displaced more than 300,000 families across the nation.[42] In Arizona, four projects were completed, displacing 2,240 families in Phoenix and Tucson.[43] Of these, 41% were families of color.[44]

In 1956, the National Interstate and Defense Highways Act provided $25 billion to construct highways.[45] This construction further encouraged suburban development but also displaced residents in urban areas.[46] An Arizona example is the development of I-17, which cut through south Phoenix — bending at Durango street and destroying neighborhoods of primarily Black and Latino residents.[47]

Phoenix Highway Construction, 1956



Source: Google Maps, https://www.google.com/maps.

It wasn't just the federal government that played a role in segregation. The National Association of Real Estate Boards also had a direct impact. From 1924 to 1950, the Realtor Code of Ethics stated: "A Realtor should never be instrumental in introducing into a neighborhood a character of property or occupancy, members of any race or nationality, or any individuals whose presence will clearly be detrimental to property values in that neighborhood."[48] With this Code of Ethics, the National Association of Real Estate Boards also threatened discipline against agents who changed the racial makeup of neighborhoods.[49]

In addition, real estate speculators also had an impact on neighborhoods through the use of blockbusting tactics.[50] After introducing one African American family into a previously all-white neighborhood, the remaining white families would fear their home values were depreciating.[51] Speculators would then purchase the houses from white households and sell them to Black and Hispanic families at a higher price, making a significant profit while encouraging "white flight."[52]

Even in the 21st century, real estate agents are having an impact on the housing market. A study completed in 2018 showed that not all potential homebuyers are given equal access to see housing in all neighborhoods. This is known as "steering."[53] Steering is a practice of real estate agents guiding buyers to specific neighborhoods. The study showed that agents steer people of color toward neighborhoods with less opportunity, less access to amenities, more crime, and more pollution than their white counterparts.[54] Steering affects families' short- and long-term outcomes because of housing's connection to poverty, employment, schooling, criminal activity, public safety, and environmental health.[55]

Housing Practices Lag behind Policy Changes

Recognizing inequity among racial groups, Congress began making policy changes. Starting in 1968, Congress passed the Civil Rights Act of 1968, which included Title VIII, more commonly known as the Fair Housing Act.[56] The Fair Housing Act made it illegal to discriminate based on race, color, religion, or national origin in housing, including purchasing, renting, and lending.[57] In 1988, the act was expanded to provide additional protections for individuals by barring discrimination based on disability and familial status.[58] In 1991, Arizona followed suit and passed the Arizona Fair Housing Act, which mirrored the federal act and provided the same protections. In addition, the Arizona Legislature amended the Arizona Landlord and Tenant Act to match.[59] Although a step in the right direction, the act was difficult to enforce at the local level.[60]

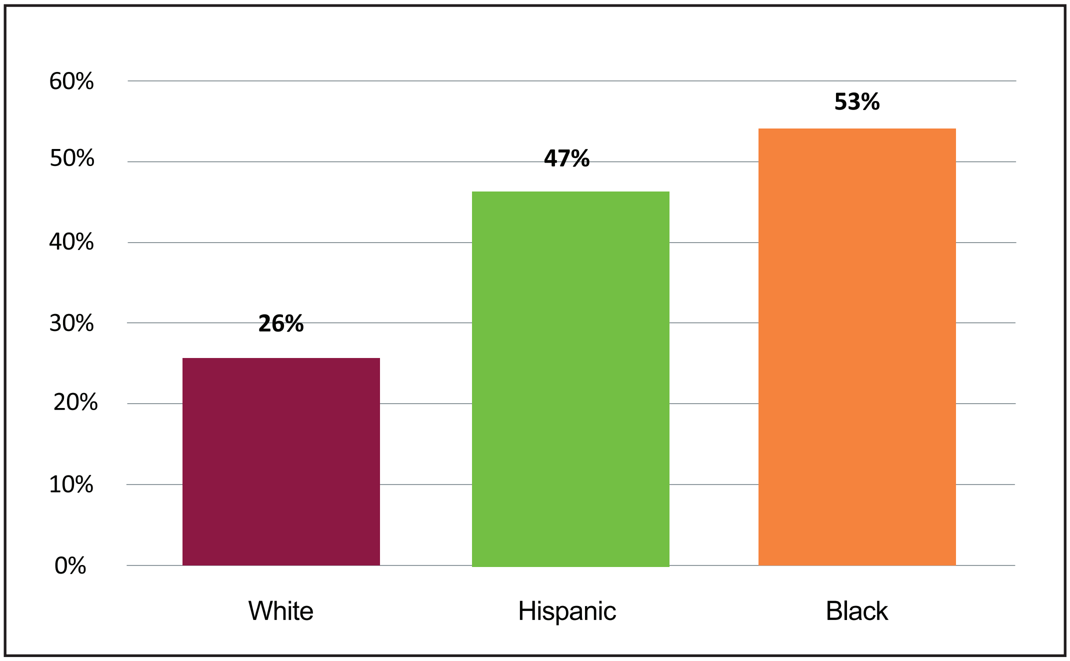
Also in 1968, the lesser-known Housing and Urban Development (HUD) Act was passed by Congress.[61] It focused on creating more housing units by expanding funding for public housing programs, established the Government National Mortgage Association (Ginnie Mae), and authorized Section 235.[62] Ginnie Mae expanded access to affordable housing by having the federal government guarantee mortgages for lower-income people by packaging the mortgages and selling them to longer-term investors.[63] It also backed single-family and multifamily loans insured by government agencies, giving more cash flow to lenders focusing on lower-income markets.[64] In addition, Section 235 provided subsidies to reduce mortgage interest rates to 1% or less, required a down payment of as little as $200, and tied mortgages to the individual's income rather than the home's value.[65] By 1970, 65.4% of white households nationwide were owner-occupied compared to 41.6% of Black households.[66] In Arizona, the homeownership gap was smaller, with 66% of white households owning versus 49.3% of Black households.[67] Although these pieces of the HUD Act began to include lower-income people of color, it led to predatory lending.[68]

Since all of these mortgages were backed by the federal government, bankers signed off on elevated appraisals, homes that were not maintained, and unaffordable mortgages.[69] It didn't matter to the bankers if the homeowner couldn't afford the mortgage because the mortgage still got paid. By 1973, 10% of Section 235 homes (in addition to FHA-assisted programs) were in foreclosure, equaling 45,608 homes.[70] By 1974, the problem had only gotten worse, and HUD had taken possession of 78,000 single-family homes.[71] In combination with predatory lending, the faltering economy led to the housing market struggle of the early-1980s. Inflation increased to 14%, and mortgage rates reached 21% at their peak.[72] Due to the high interest rate, the Housing Affordability Index reached 62% in

1982.[73] This meant that only 62% of households had the necessary income to qualify for a mortgage on a median-priced home. Existing home sales fell by 50% between 1978, when almost four million homes were sold, and 1982, when only two million homes were sold.[74] By 1990, the economy had recovered, and homeownership increased, although not evenly. White homeownership increased to 68% of households, while only 43% of Black households owned their home.[75] In Arizona, white homeownership had slightly increased to 67% of households, while Black homeownership decreased to 41% of households.[76]

In the 2000s, lenders began issuing mortgages to riskier borrowers. Homeownership rose as banks pooled mortgages together into mortgage-backed securities to sell to investors on the private market.[77] These mortgages were considered “subprime” loans because they were more expensive, carried higher interest rates, and were offered to riskier borrowers, such as people with lower credit scores or little savings for a down payment.[78] Subprime loans were also more likely to fail in the long run because they were often adjustable-rate mortgages.[79] In 2001, 85% of loans originated with prime mortgages, however by 2006 prime mortgages dropped to 52%, with the number of subprime loans increasing significantly.[80] In 2006, 53% of Black homebuyers and 47% of Hispanic homebuyers were using a subprime loan. In contrast, only 26% of white homebuyers were using subprime loans.[81]

Percent of Buyers that Received a Subprime Loan in 2006

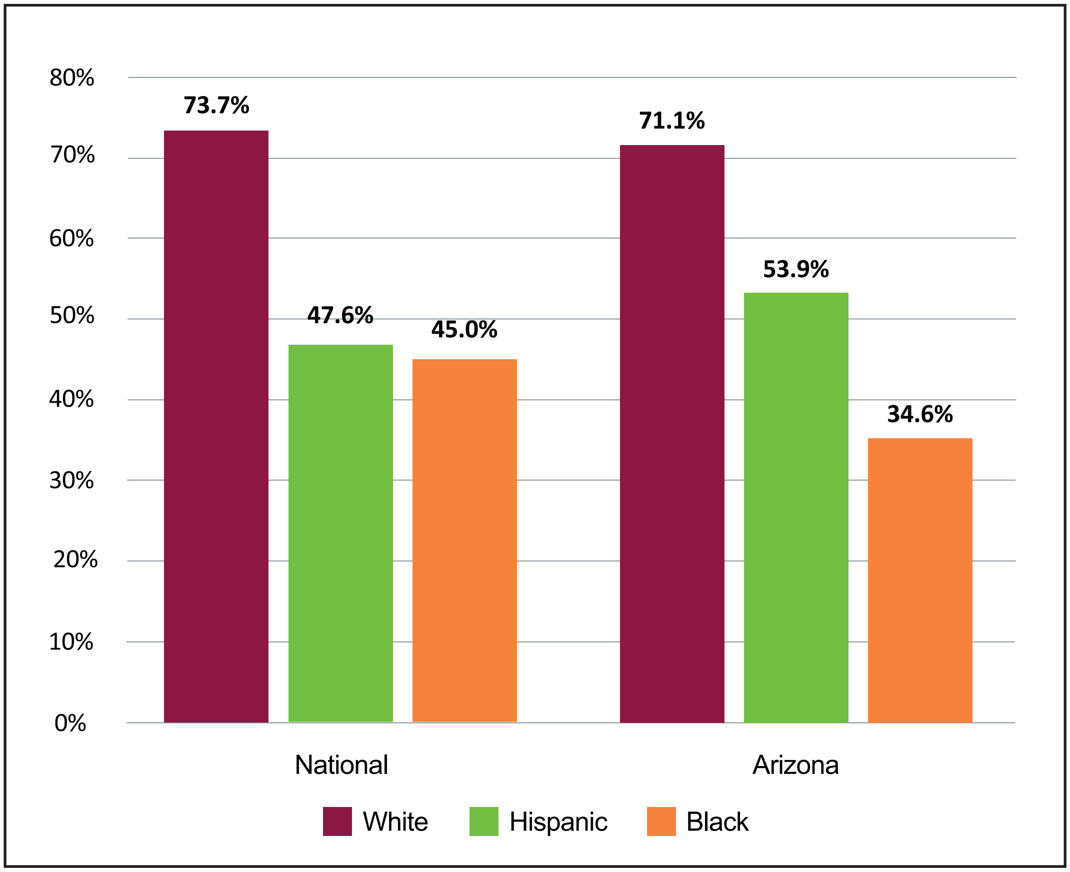


Source: Algernon Austin, “Subprime Mortgages Are Nearly Double for Hispanics and African Americans,” Economic Policy Institute, 2008, https://www.epi.org/publication/webfeatures_snapshots_20080611/.

As the housing crisis began to approach, housing prices fell dramatically. Some owners could not sell their houses to pay off their mortgages and, at the same time, were unable to afford to stay, resulting in the foreclosure crisis. Arizona had the second-highest foreclosure rate in the country, with 1 in every 30 homes receiving a foreclosure filing.[82] While the foreclosure crisis in 2007-2008 impacted everyone, Hispanic and Black households were three times more likely to face foreclosure than white households.[83] Homeownership is a large part of a household's net worth, so the foreclosure crisis disproportionally affected households of color. In 2007, the net worth of white families was eight times higher than that of Black and Hispanic households.[84] However, by 2013, the net worth of white households was eleven times higher than Black households and ten times higher than Hispanic households.[85]

Following the 2008 crash and the decrease in net worth, homeownership has continued to stay low for households of color. In 2019, nationwide white homeownership was 73.7%, Hispanic homeownership was 47.6%, and Black homeownership was 45%.[86] In Arizona, white homeownership was 71.1%, Hispanic homeownership was 53.9%, and Black homeownership was 34.6%.[87] In addition, home value differs by race, with median home price for white households at $230,000, Hispanic households at $200,000, and Black households at $150,000.[88]

Homeownership Rate by Race in the United States and Arizona



Source: 2015-2019 American Community Survey 5-Year Estimates.

Besides the historical factors contributing to lower homeownership rates for communities of color, access to homeownership is also limited by credit score, debt-to-income ratio, and savings. Nationwide, as of October 2020, majority-white communities had the highest median credit score, and majority-Native American communities had the lowest.[89] In Arizona, majority-white communities had a median credit score of 729, while communities of color had a median credit score of 646.[90]

U.S. Median Credit Score, October 2020

Majority-white communities	725
Majority-Hispanic communities	661
Majority-Black communities	612
Majority-Native American communities	603

Source: "Credit Health during the COVID-19 Pandemic," Urban Institute, 2021, https://apps.urban.org/features/credit-health-during-pandemic.

Consistent with the credit score figures, white people in the U.S. have lower debt levels compared to their assets and income than people of color.[91] Lower debt levels as compared to assets are a predictor of household financial stability.[92]

U.S. Median Debt-to-Asset Ratio by Race and Hispanic Ethnicity, 2019

White, non-Hispanic head of household	29.5%
Black head of household	46.8%
Hispanic head of household	46.2%

Source: "How Is Debt Different by Race and Ethnicity?," 2021, https://www.ebri.org/docs/default-source/fast-facts/ff-375-debtbyrace-7jan21.pdf?sfvrsn=39bf3a2f_4.

Percent of U.S. Holdholds with Debt Payments Greater than 40% of Income, 2019

White, non-Hispanic head of household	6.5%
Black head of household	8%
Hispanic head of household	12.7%

Source: "How Is Debt Different by Race and Ethnicity?," 2021, https://www.ebri.org/docs/default-source/fast-facts/ff-375-debtbyrace-7jan21.pdf?sfvrsn=39bf3a2f_4.

The cash available to an individual also differs significantly by race. The median checking account balance for white-headed households was $8,200 in 2019. In contrast, Hispanic-headed households only had access to $1,950 and Black-headed households to $1,510.[93] With less money available to put towards a down payment, individuals must pay mortgage insurance premiums. A Massachusetts Institute of Technology study found that, on average, Black homeowners pay $550 more per year in insurance premiums than white homeowners.[94]

Interest rates also play a factor in homeownership, and are impacted by credit score, debt-to-income ratio, and cash down. A 2021 study by the Joint Center for Housing Studies found that at equivalent incomes, white households were granted lower interest rates than Black households.[95] Even more surprising is white homeowners who made $30,000 or less had equivalent interest rates to Black homeowners who earned above $100,000.[96] In addition, Black homeowners who had refinanced were given equivalent interest rates to white homeowners who had not refinanced.[97] A University of California, Berkeley study found that Hispanic and Black borrowers pay interest rates that are 0.079% higher for purchases and 0.036% higher for refinances.[98] Although these seem like small numbers, they add up to Hispanic and Black households paying an extra $765 million in interest each year.[99]

Policy Options

Today, homeownership is still a dream for many. But homeownership today costs 6-8 times an individual's income. In the 1930s, homeownership cost just two times an individual's income.[100] Despite the change in cost, homeownership is still more financially beneficial in most parts of the country than renting.[101]

Several public policy choices can encourage homeownership, especially among people of color:

Expand access to homebuyer education and counseling courses. A study in 2010 determined that a lack of understanding of the homebuying process led to lower homeownership rates among people of color.[102] Questions about how to buy a home, how to get a real estate agent, how to get a mortgage, and the best mortgage options were all cited as barriers to homeownership.[103] A study completed by HUD found that attendees of a homebuying course had greater confidence in their ability to find needed information, higher rates of home purchase among young adults, greater satisfaction with the homebuying process, and a greater likelihood of seeking assistance in times of financial distress.[104] Overall, the study found that the course increased access to homeownership and the sustainability of homeownership for participants.[105] There are homebuyer education and counseling courses available in Arizona for a reasonable price. Housing Counseling Agencies provide them, but they are not widely publicized.[106] By partnering with a greater network of real estate agents and lenders, these classes could be offered on a wider scale.

Add alternative data to improve credit scores. As referenced above, Black and Hispanic people often have lower credit scores than their white counterparts. The credit system disadvantages lower-income consumers who use less credit but still pay their bills on time.[107] According to Kelly Cochran, deputy director of FinRegLab, "about 20 percent of U.S. adults can't be scored using traditional credit because of insufficient information."[108] However, these individuals could be scored using other means such as bank information, utility accounts, or even phone bills.[109] Currently, credit companies only see these charges if they go to collections. Changing the access to this data could mean that individuals would be rewarded for on-time payments of these regular bills.[110] Although still being explored, the shift to a more holistic view of an individual's finances could improve access to homeownership and decrease interest rates. The change would have to come at the federal level or across all three credit bureaus to be effective.

Evaluating mortgages without demographic information. Unfortunately, both race and gender play a role in determining approval for mortgages due to implicit bias within the lending system. A study by the University of California, Berkeley found that at least 6% of applications for mortgages by Black and Hispanic applicants were rejected but would have been accepted had the applicant been white.[111] This equated to 740,000 to 1.3 million applications being declined.[112] Changing mortgage applications so that they are evaluated without demographic information would increase approval rates for people of color and stop implicit bias from tainting the lending process. The change could be mandated at the federal or state level or be implemented by individual lenders.

Expand and restructure down payment assistance programs. Although there are several down payment assistance programs in Arizona, most target first-time homebuyers and lower-income individuals. These two groups of individuals may include homebuyers of color, but it is not a guarantee. Programs cannot specifically target certain races because doing so would violate the Fair Housing Act. But targeting first-generation homebuyers (meaning the parents of the homebuyer are renters) to participate in down payment assistance programs would disproportionately help communities of color.[113] First-generation homebuyer down payment assistance programs could be implemented by the administrators of the existing down payment assistance programs.

Incentivizing homeownership through a tax credit. Although there is a tax deduction at the federal level for mortgage interest and property taxes, it requires individuals to itemize their taxes. With the increase in the standard deduction from the Tax Cuts and Jobs Act of 2017, fewer households are itemizing deductions. However, changing the deduction to a credit at the federal level with a limited cap on income would benefit people of color. One analysis showed that homeownership rates among low-income people of color would increase 6-10% if a tax credit were offered.[114] Another option would be providing a state tax deduction or credit for first-time homebuyers for the year of a home purchase.

Provide government housing reparations to people of color. In 2021, Evanston, Illinois, passed an initiative for residents to receive up to $25,000 for mortgage and down payment assistance or home improvements.[115] To qualify, residents must show that they have Black ancestry in Evanston dating back to between 1919 and 1969 or be a direct descendant of an individual harmed by discriminatory housing policies.[116] The program aims to acknowledge the wrongdoing of the city's past segregationist policies, begin repairing the damage done by these policies, combat segregation in housing, and increase Black homeownership.[117] The first-of-its-kind program aims to "build intergenerational wealth" and help reduce the racial wealth gap.[118] In this case, the initiative was passed at the local level, but a similar policy could also be passed at the state level.

Build more affordable housing. The construction of affordable housing is quite costly. Furthermore, no single entity is responsible for constructing affordable housing; it often takes the government, developers, and investors coming together to make it work. Despite its cost and complexity, creating more affordable rental housing allows more people to save money that can be put toward a down payment. On the homeownership side, building more affordable starter homes will enable individuals to enter the market and begin building wealth through homeownership. Over time, individuals can move to larger homes and resell their first houses to the next generation of first-time homebuyers.

Endnotes

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411 N. Central Ave., Suite 900 • Phoenix, Arizona 85004-0692 • (602) 496-0900
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