

**Redlining, Housing Segregation, and Home
Equity Wealth-Building Opportunities**

*How New Deal Housing Policy
Entrenched the Racial Wealth Gap*

Ryan Best

Introduction

“Be not deceived, wealth is strength, wealth is power, wealth is influence, wealth is justice, is liberty, is real human rights” – Marcus Garvey (Color of Money 82)

What is Wealth?

Wealth is a fundamental underpinning of our American cultural identity and the American Dream. Our societal concept of an individual's worth, capability, and success is inseparably intertwined with their ability to amass wealth. The American Dream, central to the cultural, societal, and economic foundations of the perceived American meritocracy, holds dear the ideal that anyone who is willing to work hard will have the opportunity for a more stable and prosperous life, not only for themselves but for future generations of their family. Realizing this dream, and the upward social mobility it brings, is contingent on accumulating wealth – and as much of it as possible. As such a foundational piece of the American way of life, it is essential to clearly define what wealth is and how it reflects the opportunities one has to participate and thrive in the American political economy.

An individual's wealth (or net worth) refers to the aggregate value of one's assets and savings, minus any debts. Assets, which add to one's level of wealth, are pieces of property or equity that have positive market value. Prime examples of assets that not only add to an individual's net worth but operate as representations of “success” in the prototypical suburban vision of the American Dream are a house (with a white picket fence) and a car. These pieces of property hold a discrete monetary value – the price its owner would be able to sell them for on the open market. Members of the American middle or lower classes often need help financing our most expensive pieces of property, especially homes and automobiles. Today we're able to take out loans to finance these purchases and as we pay back the amount we've borrowed, we retain a stake in ownership of that property, incrementally building personal equity while we pay back our lenders. Once we're able to pay off the full amount of the loan used to finance these purchases, we can retain the entire value of that good or service, significantly contributing to our wealth level. Outside of tangible pieces of property, a vast amount of American wealth is held in investment funds like 401k's, stock portfolios, and other financial investments. These investment holdings also contain real monetary value for their holder, as we can withdraw from these accounts (whether now or at a later time) or sell the stocks we own on the trading floor. The aggregate value from all of an individual's property and investments, plus any amount of money they've been able to save, raise an individual's level of wealth. Debts detract from one's wealth, as they represent money that person owes to another individual or institution, the most common of which include outstanding student loans and mortgages. When these debts exceed the value of assets and savings, an individual can dip into a negative net wealth. Essentially, your individual wealth is the amount of money you'd have after you sold all your possessions, cashed in all your investments, and paid back the value of any your outstanding loans.

Why Focus on Wealth?

Many studies of socioeconomic wellbeing tend to circulate around income as a primary indicator of economic prosperity. Studies of poverty consider the percentage of a neighborhood's residents whose income fall below a certain threshold. Programs that aim to provide services for underserved communities often focus on low-to-moderate income areas. On face this approach seems reasonable – using income to represent economic standing is a logical first step in exploring who is well-off in current societal structures. After all, an individual's take-home pay dictates the amount of goods and services they're able to purchase. While income level is one key component of economic standing, focusing on income as its primary pillar proves to be a crucially short-handed portrayal of an individual's economic opportunities towards prosperity, stability, and mobility. Income alone unveils only a piece of a broader picture without allowing us to fully understand a family's economic capabilities, at times causing us to even misunderstand their extents or limits. It is more prudent to instead focus on wealth, which provides a much more holistic view of economic wellbeing. It is wealth that gives us the financial runway and stability that greatly facilitates earning a degree, opening a business, or purchasing property – examples of larger long-term investments that can appreciate in value, create opportunities for higher income, be passed on to future generations, and in turn beget more wealth. Income can be a substantial influence on wealth if you're able to set aside portions of your income and contributing to a savings or to financial investments, but it is in this conversion to wealth that income becomes a key inflection point in our economic future.

Wealth compounds, begetting more wealth. Investments that can sit unfettered will appreciate, inflating the wealth of the investor, which in turn allows them to invest more or purchase additional investments, building more and more equity, and the cycle repeats. Debt cycles can work in the same way but with opposite effects – if you need to take a loan out to purchase property or fund schooling, you may be charged a higher interest rate if you have any outstanding debt from previous loans. Needing more time to pay off your debt racks up increasing interest payments, drawing value out of any liabilities or savings you may have amassed, and may make it harder to find reasonable or affordable loans in the future. Having existing debt makes it harder to accumulate wealth, while having existing wealth makes it easier to accumulate more wealth, and both these cycles can be self-perpetuating. Wealth is also generational – it, unlike income, can be passed from generation to generation within a family through financial support, familial loans, and inheritance. When parents pay for their children's college tuition, act as guarantors or co-signers on a much-needed loan to finance investment, or leave a nest egg in inheritance, they give their children an undeniable advantage in accumulating wealth of their own (if not providing this wealth outright). As the popular adage conveys, “it takes money to make money,” and having wealth in the family or existing wealth of your own helps create paths to more wealth and sustained prosperity. Due to these generational and compounding aspects of wealth, patterns emerge that can persist for decades. Thus, looking at wealth allows us to investigate and understand how the past contextualizes and influences the present – that is, both an individual or familial past and a broader societal past.

What is the Racial Wealth Gap?

One of the most all-encompassing manifestations of these generational wealth and poverty cycles in American society is the racial wealth gap. The racial wealth gap refers to a measurement that compares wealth levels of the most “typical” white and African American families by looking at the median – if we lined up each white family and each black family in America ordered by aggregate wealth, the median family would fall precisely in the middle of each respective distribution. Using median wealth for this comparison gives us both a general indication of the broader disparities between black and white wealth in society as a whole, but more importantly allows us to have a more precise view of this disparity for the “typical” or “regular” American family of both races – and the difference is stark. As of 2016, the median white family wealth was approximately \$171,000, which towers over the net worth of \$17,409 for the median black family – white wealth in the United States is almost ten times higher than black wealth, with the “typical” white family having a net worth that is almost \$100,000 higher than their African American counterparts. Furthermore, this gap has persisted or even grown since the 1960’s. In 1963 white wealth was \$47,188 higher than non-white wealth, and by 1983 (the first year in record that measured wealth specifically within the black community) that gap had almost doubled, as it ballooned to over \$92,000 (all in 2016 dollars) (*UrbanInstitute, cited by Vox*). Through market changes, recessions, and periods of economic prosperity in the past handful of decades, the vast amount of white wealth has persistently dwarfed black wealth. This disparity in wealth also outpaces the racial income gap – median black family income is around 60% of white income (\$37,000 vs \$60,000), compared with median black wealth being only 10% of median white wealth (*Color of Law 184*). On the whole, white Americans benefit from the stability and opportunities that come with wealth disproportionately more than black Americans, who are consistently denied access to the same avenues to prosperity that are well established for white America. If wealth is quintessential to establishing one’s economic prosperity and stability, then the racial wealth gap shows the systematic denial of these economic opportunities to swaths of the American population.

These disparate economic outlooks that permeate along racial lines in modern American society have evolved through centuries of cognizant and calculated societal, economic, and political design, along with the market forces that have responded to that design. As such, there is an uncountable confluence of factors one could consider when studying how this gap came to be, and what the designs were that established it. We’ve already established how income can help create and sustain wealth, and there has been well merited focus in social discourse around income inequality – movements like Occupy Wall Street and the 2016 Bernie Sanders Presidential campaign in the Democratic primaries made income inequality a central focal point, thrusting a conversation around income distribution into the national spotlight. Focusing our attention on measures like a family’s ability to save; levels of student loan debt; access to crucial services like education, medical services, and healthy food; and incarceration rates (just to name a few) alongside or in addition to income would all provide crucial insight on the interrelated factors that contribute to the disheartening racial wealth gap. However, this analysis will focus specifically on housing and its impact to wealth and the racial wealth gap, which is the factor I believe to be the most influential vehicle available for American families to build equity, move up the economic pegging order, and firmly establish them in the middle and upper class.

Why Focus on Housing, and How Does It Build Wealth?

Owning a house out in the suburbs with a white picket fence became synonymous with American's picturesque vision of the middle class during a period of unprecedented economic prosperity after WWII, and for good reason – homeownership has proved to be a great accumulator of wealth in our contemporary American economic and political landscape. Buying a home is often the most substantial and capital-intensive investment Americans can make in their lifetime, one that is likely to have the biggest influence on their net worth and the generational wealth of their family. Homeownership is the most common path American families take to build wealth (*Segregation 81*). If you own the home you live in, that home's contribution to your wealth level is dictated by the value you could sell that property for on the open market in dollar terms. Modern mortgages make buying a home a prudent opportunity for building wealth for the middle-class by allowing homeowners to gradually increase the stake they own in their house over time without needing to pay for a majority of the home's entire monetary value up front. Instead, they can put down a down payment of 5-20% of the home's value and pay off the rest (plus interest) over an extended period of time (often as much as 30 years) through a mortgage loan, paying in installments that may not be much higher than a rent payment would be. Furthermore, most mortgages are amortized, which means that a portion of each mortgage payment is applied toward the loan principle (in addition to the interest) which in turn increases the lender's equity stake in their house – once the mortgage is fully paid off, the lender now owns the house outright. Lenders don't need to reach the end of this runway and own the full value of their house outright to build wealth from their home purchase, however. Since each mortgage payment increases the percent stake of a house's full market value that the homeowner owns, paying off a mortgage over time gradually builds the portion of their home that the homeowner can claim as equity, attributing a higher portion of the property's full value to their overall wealth. This means that if a family can put down just 5% down for their home, make regular mortgage payments, that family will earn a whopping 100% return on their initial investment and the value of that every time that house appreciates 5% in the next year (*Segregation 82*). Using homeownership as a vehicle to build equity in this way is the primary avenue for wealth development in the American middle class, as the majority of American middle-class wealth is tied up in home equity and property: homeownership is estimated to encapsulate almost two thirds of all wealth for middle-wealth American families in the 2010's (*Wolff and State of Working America*).

Buying or financing a first home is thus one of the most common harbingers of upward social mobility, pushing homeowners solidly into the middle class or giving them the breathing room to stay there. Family assistance in financing a down payment for that first home purchase (often done under the pretense of a “loan” with no functional expectations of repayment) can lessen the size of a mortgage the purchaser needs, avoid the need for costly mortgage insurance, and soften the terms or interest rates on loans needed to finance the remaining portion of the home's value. In easing the path to new homeownership, this can be one of the most common and impactful ways wealth becomes generational outside of postmortem inheritance (*Shapiro Interview*). Since home equity represents the dominant portion of middle-class family wealth and the value of houses fluctuates like any other

product, commodity, or stock, the livelihood of middle-class Americans is thus overwhelmingly dependent on the housing market – it is in this dominance of middle-class wealth that the collapse of the housing market caused such dramatic financial loss for middle-class Americans, who suffered sudden and rapid depreciation of housing and mortgage values as the housing bubble burst (which on a larger scale helped set off the late-2000's and early-2010's Great Recession). The prospect for homeownership to be more profitable than renting therefore is different for each individual family and using homeownership as an investment does include a fair amount of risk and chance, but its aggregate effect on wealth levels in America's history is undeniable. Even after considering such a dramatic economic downturn centered around the housing market, middle class wealth is all but synonymous with home equity today – as the housing market goes, so goes middle-class wealth in America. With time to appreciate, owning home equity provides a lucrative and relatively stable path to wealth accumulation, representing an asset that is ubiquitous in the balance sheets of most American families.

How Does Homeownership Help Explain the Racial Wealth Gap?

Not only is housing the lifeblood of middle-class families' net worth and subsequent financial outlook, studying the housing market provides a uniquely insightful exploration of the broad causal relationships behind the racial wealth gap. This is not at all to say that housing market dynamics encompass all of the causes behind this wealth gap, nor do I have the evidence to explicitly claim that housing accounts for the majority of this gap – such a claim would require a much more extensive socioeconomic study. Still, just as they are an impactful contributor to overall wealth levels for the American middle-class, homeownership dynamics also act as a key protagonist in establishing and entrenching societal wealth disparities. Homeownership is likely the most important asset in the establishment and growth of wealth in non-white communities, even more so than in white communities – the Brookings Institute estimated that in 2005, homeownership's relative share of black net worth was 12% higher than its relative share of white net worth (*Segregation cited 82*). Even with this role as a key component of black net worth, black homeownership rates have consistently lagged behind homeownership rates for white Americans by around 25% (*NCRC Interview*). As of 2016, 68% of white Americans own equity in the home in which they live, compared to only 42% of black families. This disparity remains effectively unchanged from homeownership levels from back in the 1970's, when in 1976 white ownership levels saw almost the exact same margin over black homeownership rates (68% white homeownership, 44% black homeownership) (*UrbanInstitute*). By some estimates this gap reached levels as high as almost 50% in the mid-2000's (*Segregation 83*). In fact, the size of this gap has remained at least as large as 25% across the past century of American history. Between post-civil war America through the 1940's, white homeownership rates hovered at just under 50%, with black homeownership estimated at around 25%. These estimates most likely somewhat overestimate the functional rate of black homeownership, as they attributed ownership of a farm to its sharecropper – a far from lucrative arrangement that provided the sharecropper no opportunity to build any semblance of equity (*NCRC Interview*). Even during times of relative expansion or contraction of national homeownership markets, black and white participation that in market have

either risen and fallen synchronously, or relative gains in black homeownership haven't been able to make substantial progress to narrow the divide and approach the levels of homeownership observed in white communities.

The entrenchment of this homeownership divide that remains pervasive in contemporary American socioeconomics is rooted in the systemic denial of African American access to housing markets, especially valuable housing markets in white communities, and the coordinated curbing of home equity value in black neighborhoods. Longstanding practices of racial discrimination and overt racism exercised by both the government and private sector established widespread racial segregation in residential America. This coordinated effort of promoting and institutionalizing racial quarantining contributed to dramatic differences in the access to homeownership during WWII and post-Great Depression United States. This timeframe was one of great economic expansion and prosperity as the United States emerged from the Great Depression, with wages and incomes experiencing a dramatic and rapid boon. From the end of WWII all the way until around 1973, real wages and family incomes of working- and middle-class Americans increased almost twofold, with African American wage and income growth matching or even outpacing the increase of white income (*Color of Law 180*). This increased liquidity after a period of intense economic hardship coincided with a governmental push to ease the path to homeownership for the lower- and middle-classes, allowing these higher wages to be used for wealth-building home purchases. The New Deal government policies that introduced sweeping changes and millions of dollars in subsidies within the mortgage market made buying a home more accessible than ever, thereby facilitating an unprecedented rise in homeownership and unearthing a key engine of prosperity to a broader population where it had previously been altogether out of reach. However, these policies served to codify racial segregation within these new mortgage credit markets, ensuring this reinvigorated wealth-building engine was exclusionary and made available only to white Americans. These policy decisions would make race all but a fundamental prerequisite to accessing any meaningful home equity for the decades to come, shutting African Americans out of a market that would yield exorbitant wealth accumulation for white Americans. This institutionalization of widely divergent access to wealth accumulation reverberate within the generational racial wealth gap that plagues American society today.

How Did the New Deal Government Revolutionize the Mortgage Market and Facilitate Homeownership?

Before the 1930's, mortgages looked dramatically different than they do today. The terms of typical mortgages pre-1930's made it extremely hard and overwhelmingly costly to buy a home for members of the working- or middle-class who didn't already have substantial levels of wealth and made lending to families of modest means a risky endeavor for financiers. Mortgage lenders required a sizable down payment during this time, commonly between 40 and 70 percent, as first mortgages were limited to cover only one-half or two-thirds of the home's appraised value. The timeframe of typical mortgages extended only between three to seven years with borrowers expected to make a "balloon payment" at the end of this runway, which repaid the entire outstanding sum of the loan's principal. Mortgages were also mostly not amortized, meaning regular payments made during the course of the mortgage were applied only to the loan's interest and not to the principal. Borrowers were thus neither able to substantially reduce the total amount of their balloon payment nor earn any equity in their homes until this

balloon payment was made at the end of their loan period (if they were able to afford the lump sum payment at that time). Borrowers who reached the end of their loan period without sufficient liquidity for this payment risked foreclosure, so most borrowers would then finance their outstanding debt with second mortgages that carried similar terms to avoid foreclosure and eviction. Interest rates for a typical middle-class family totaled at around 15% – in the 1920's, mortgage rates for first mortgages averaged between 6 and 8 percent, and the second mortgages that commonly followed requiring additional payments including discounts to the lender, a higher interest rate on the loan, and a potential commission to a broker. These conditions kept pre-New Deal homeownership rates relatively low (under 50%) and concentrated most home equity to already wealthy families (*Crabgrass 204-205*).

Facing a foreclosure crisis on the horizon during the Great Depression, as the economic downturn affected the means for millions of borrowers to feasibly pay upcoming mortgage balloon payments, President Franklin D. Roosevelt created the Home Owners' Loan Corporation (HOLC) as provision of the Home Owners Loan Act, which passed in June 1933 during the tail end of the "First Hundred Days" of New Deal legislation. This government-sponsored agency was empowered with protecting small urban homeowners from foreclosure and relieving the pressure they felt from looming mortgage payments they incurred during a pre-Depression period of higher valuations and earnings. To this end, the HOLC underwent a "rescue" phase during which they offered to refinance mortgages of nonfarm houses by replacing lenders' outstanding mortgage loans with government bonds and fully insured interest and principal on these bonds. Although this offered lenders a lower profit margin, it guaranteed a return on their initial investment which proved to be a very attractive offer for dealing with borrower delinquency and potential foreclosure. For borrowers, these refinanced mortgages would consist of fifteen-year, fully amortized low-interest loans – a much more favorable and generous term sheet than their previous mortgages. These changes were embraced wholeheartedly by the market – in the HOLC's "rescue" phase between July 1933 and June 1935, almost 40 percent of eligible homeowners applied for refinancing of which the HOLC accepted roughly half, supplying a total of over a million mortgages worth over \$3 billion. By 1936, more than 20% of all nonfarm mortgages nationwide were held by the HOLC (*New Perspectives, Crabgrass p. 196*). The HOLC provided these rescue refinancing deals to white and non-white homeowners alike at rates consistent with homeownership levels – African Americans had dramatically lower homeownership rates than their white counterparts at the time, but received HOLC assistance in proportions roughly consistent with their ownership rates in most areas nationwide (*New Perspectives, p.2*).

With the HOLC subsidizing existing homeowners and relieving pressure of foreclosure through long-term low-interest amortized refinancing, FDR and Congress also set their sights on stimulating the market for new mortgages through creation of the Federal Housing Authority (FHA) in 1934 and the Veterans Administration (VA) in 1944. The FHA would prove to be one of the most impactful government agencies in the past half-century, as they opened the floodgates for mass investment in mortgage markets (*Crabgrass 203, Color of Money 106*). They induced mass private funding of the mortgage market by insuring any potential loss faced by lenders who invested money in residential mortgages. They also dramatically changed the face of the mortgage market by establishing standard mortgage terms that, like the HOLC's refinancing mortgages, were much more favorable to borrowers. Their changes would truly revolutionize the home finance industry, shaping it in a way that allowed middle-class

families access to affordable mortgages. First, the FHA dramatically reduced the size of down payments needed by fully insuring 80 to 90 percent of a home's appraised value, making down payments higher than 10 percent unnecessary and sometimes even allowing down payments as low as 5 percent on some home sales. Second, they adopted and expanded the tenants of HOLC's rescue refinancing by extending the time horizon for the loans they would insure to 25 to 30 years and requiring that all insured loans be amortized. This gave borrowers a more reasonable timeframe to pay back high loan balances while earning equity in their home during the process. Third, providing these substantial government guarantees dramatically reduced lender risk and consequently lowered interest rates – estimates place rates around 2-3% or 4-6%, dramatically lower than the functional rate of 15% observed prior. Finally, they established uniform minimum standards for home construction, which promoted building of homogeneous houses that were free of gross structural or mechanical deficiencies. The VA adopted much of these same standards and procedures in their effort to help sixteen million World War II veterans purchase a home. These groundbreaking changes provided new opportunities for Americans of more modest wealth to purchase homes as it became cheaper to buy than rent, and homeownership rates skyrocketed as a result. Between 1934 and 1972, overall homeownership rates ballooned from 44% to 63% and by 1950 the FHA and VA together were insuring half of all new mortgages nationwide (*Color of Law* 63-70, *Crabgrass* 203-205, *Color of Money* 107). While these administrations enacted changes and subsidies that revolutionized and dramatically expanded the mortgage market, they also institutionalized existing racist and discriminatory policies of segregation, creating an entrenched dichotomy between a robust white middle class and concentrated black ghettos that has become a permanent feature of American society that persists today.

How Did the New Deal Housing Policy Institutionalize Racial Discrimination?

Along with introducing long-term low-cost amortized mortgages, the HOLC and FHA also introduced standardized appraisal procedures into the mortgage landscape. These appraisal processes delineated levels of risk in issuing, holding, or insuring a mortgage in a certain area or neighborhood. For the HOLC, these appraisals became vital once they concluded offering refinanced mortgages and began managing and selling off these holdings in a “consolidation” period from 1935-1951 (*New Perspectives* 2). To assess whether values of its borrowers' homes would likely maintain their value, the HOLC recruited local real estate agents to help make risk appraisals, which were then used to make color-coded maps of every metropolitan area in the nation. Areas were rated on a desirability and risk scale, with the safest investments coded green and the riskiest coded red. The racial composition of neighborhoods was one of the primary factors used in gauging a neighborhood's risk: if African Americans lived in a specific area, it was deemed unsafe for investment and colored red on the map (*Color of Law* 64). These maps helped coin the term ‘redlining’: race was the predominant factor in appraiser's determination that a neighborhood was undesirable, that its property values would likely decline, and that it should be surrounded by red lines on their security map. In fact, race was a better predictor of whether a neighborhood would be marked as ‘declining’ than structural characteristics we typically associate with home values or desirability of urban real estate, like the age of homes, creditworthiness of its residents, access to transportation opportunities, quality of schools, of any other

feature (*Color of Money* 105). In its assessment of one neighborhood in Brooklyn, one HOLC appraiser cited an “infiltration of Negroes” as a detrimental factor to property values, while another was characterized as a “very undesirable neighborhood of mixed races.” Predictably, both were D-rated as a hazardous investment and were redlined on the HOLC map (*Mapping Inequality*).

In a similar fashion, the FHA conducted its own appraisals to make sure it understood risks of default before a mortgage became eligible for government insurance. These appraisal standards included requirements and stipulations explicitly based on race, enforcing racial segregation on a national scale. The 1938 FHA Underwriting Manual, which “contained instructions and regulations governing the procedure and policies” of FHA underwriters dictated that “if a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes.” (*FHA Underwriting Manual*, #937). According to this manual, only homogenous white communities could be trusted to retain their housing values – any “infiltration” of “inharmonious races” would directly threaten property values. The FHA strongly discouraged investment in inner cities, instead promoting loans in newly built all-white suburbs and areas where barriers like highways separated black and white residents (*Color of Law* 65). These FHA policies affected which mortgages the agency would agree to insure and at what rates, in turn reinforced strong market dynamics to maintain segregated neighborhoods, subsidize homogenous white suburbs, and dampen property values in black communities. It became clear both through these written policies and in studying the insurance they issued that the FHA was only interested in insuring mortgages that facilitated white ownership – between 1934 and 1968, 98 percent of FHA loans went to white homeowners (*Color of Money* 108).

Neither the HOLC nor the FHA created redlining, established new patterns of segregation, or introduced assessing the desirability of neighborhoods based on race. Discriminatory practices and attitudes in housing were well established before the 1930’s. Restrictive covenants prevented the resale of property to non-white owners. Segregation was the existing prevailing desire of white Americans, who didn’t want to live near black Americans. White Americans already viewed black Americans moving into their neighborhood as a signal that property values would plummet. The HOLC’s security maps and FHA’s underwriting policies adopted these prevailing attitudes and market dynamics of the time and by not challenging this racism, they perpetuated these racially-motivated perceptions of lending risk. These redlining maps and policies were then also picked up by private banks to use as models for their own security maps of perceived lending risk and their decisions on where to lend and to whom (*Color of Money* 106). This agreement between the Federal Government and the private banking sector to establish, protect, and subsidize all-white suburbs succeeded in excluding black residents from any meaningful participating in one of the biggest generational wealth-building engines of the last century. By deeming black urban neighborhoods as undesirable and refusing to absorb mortgage risk in black neighborhoods (like it was doing in every other market nationwide) official policy, the Federal Government made high-cost mortgages for lower-value properties in all-black ghettos a self-fulfilling and permanent market feature of the 20th century. Residents of redlined areas either couldn’t get a loan at all or could only get loans that carried substantially higher cost, which served to severely depress the values of homes in their neighborhood, curbing the potential financial benefit of homeownership in these areas they were contained in. This depressant is self-sustaining, since a poor appraisal rating makes loans harder to get, which in turn then affects appraisal ratings, and on and on. By incentivizing all-white suburbs of homeowners

and black ghettos of tenants, the government facilitated the creation of two separate mortgage markets – one for white Americans and another for black – that would perpetuate segregation and create vastly different opportunities for these communities to generate generational wealth.

Many black families could have afforded to buy homes in post-WWII suburbia (that cost \$75,000 in today's dollars) with no down payment, as white families were able to do. Since they were shut out of that market, they weren't able to build equity in homes that have appreciated substantially time, forced to stay as tenants without access to viable assets and with stagnating levels of wealth. Today, this wealth stagnation means descendants of the same working- and middle-class black families will likely be unable to fund purchases of the same homes that are now worth \$350,000 or more with a now standard down payment of 20%, or around \$70,000. Even after housing discrimination was prohibited (and assuming its full enforcement and compliance in the contemporary market), it is now unaffordability that keeps many African Americans out of still mostly white suburbs.

The right that was unconstitutionally denied to African Americans in the late 1940s cannot be restored by passing a Fair Housing law that tells their descendants they can now buy homes in the suburbs, if only they can afford it. The advantage that FHA and VA loans gave to white lower-middle class in the 1940's and 50's has become permanent. (Color of Law 183)

How Can We Measure New Deal-Era Redlining's Effect on Homeownership and Home Equity Today?

We can see the lingering effects of these racist real estate market dynamics by studying the redlining maps drawn by the HOLC, which provide a geospatial window into where the government, private banks, and local appraisers denoted black neighborhoods as undesirable and unworthy for lending. In comparing these maps with trends in and current levels of homeownership, home equity, and population dynamics we can unearth evidence of the continued effect these policies enacted in the New Deal have on the real estate market and economic outlook of millions of Americans today. A study by the National Community Reinvestment Coalition (NCRC) confirmed that redlined districts today are still overwhelmingly occupied by poorer (lower-to-moderate income), non-white residents while greenlined areas have maintained a predominantly white, middle-to-upper income population (*NCRC HOLC*). My research approach will focus on the New York metro area, looking for evidence of the racial dynamic codified by New Deal housing policy in homeownership rates and property values. In this vein, I will explore longitudinal homeownership rates, home equity values, and wealth statistics in neighborhoods that were greenlight, identifying useful counterfactual comparisons between areas where populations stayed predominantly white and areas where the racial dynamic became more diverse and more non-white. Exploring these specific neighborhood dynamics will help my readers understand how racial dynamics are reflected in the housing market and will provide the opportunity to tell a compelling story about different neighborhoods in New York, contextualizing the history of the metro area's socioeconomic compositions and changes over time.

Bibliography

1. McKernan, Signe-Mary, Caleb Quakenbush, Caroline Ratcliffe, Emma Kalish, and C. Eugene Steuerle. "Nine Charts about Wealth Inequality in America (Updated)." Nine Charts about Wealth Inequality in America (Updated). October 04, 2017. Accessed March 24, 2019. <http://apps.urban.org/features/wealth-inequality-charts/>.
2. Wolff, Edward. "Has Middle Class Wealth Recovered? For Presentation at the ASSA Meetings, LERA Session N3, "Dimensions of Wealth Inequality,"." *American Economic Association*, November 29, 2017. <https://www.aeaweb.org/conference/2018/preliminary/paper/5ZFEEf69>.
3. Mishel, Lawrence, Josh Bivens, Elise Gould, and Heidi Shierholz. *State of Working America, 12th Edition*. Cornell University Press, 2012. <http://stateofworkingamerica.org/subjects/wealth/?reader>. An Economic Policy Institute book
4. Rothstein, Richard. *The Color of Law: A Forgotten History of How Our Government Segregated America*. New York: Liveright Publishing Corporation, a Division of W. W. Norton & Company, 2018.
5. Federal Housing Authority. *Underwriting Manual*. 1938. Underwriting and Valuation Procedure Under Title II of the National Housing Act <https://www.huduser.gov/portal/sites/default/files/pdf/Federal-Housing-Administration-Underwriting-Manual.pdf>.
6. Baradaran, Mehrsa. *The Color of Money: Black Banks and the Racial Wealth Gap*. Cambridge, MA: Belknap Press of Harvard University Press, 2019.
7. Jackson, Kenneth T. *Crabgrass Frontier: The Suburbanization of the United States*. OXFORD University Press, 2012.
8. Robert K. Nelson, LaDale Winling, Richard Marciano, Nathan Connolly, et al., "Mapping Inequality," *American Panorama*, ed. Robert K. Nelson and Edward L. Ayers, accessed March 24, 2019, <https://dsl.richmond.edu/panorama/redlining/>
9. Michney, Todd M., and Ladale Winling. "New Perspectives on New Deal Housing Policy: Explicating and Mapping HOLC Loans to African Americans." *Journal of Urban History*, 2019, 009614421881942. doi:10.1177/0096144218819429.
10. Mitchell, Bruce, PhD., and Juan Franco. "HOLC "Redlining" Maps: The Persistent Structure of Segregation and Economic Inequality." Research » NCRC. Accessed March 24, 2019. <http://maps.ncrc.org/holcreport/report/index.html>.
11. Carr, James H., and Nandinee K. Kutty. *Segregation: The Rising Costs for America*. New York, NY: Routledge, 2008.
12. Coates, Ta-Nehisi. "The Case for Reparations." *The Atlantic*, June 2014. <https://www.theatlantic.com/magazine/archive/2014/06/the-case-for-reparations/361631/>
13. *Explained: The Racial Wealth Gap*. Produced by Vox and Netflix. <https://www.netflix.com/watch/80243753>.