Center for American Progress

Toward Jobs and Justice: Where You Live Matters

By Michela Zonta and Sarah Edelman

Economic stability and social justice are inextricably linked. Economic marginalization is at the heart of racial injustice. Our nation and economy are strongest when our middle class is robust—when all individuals, regardless of race or ethnicity, hometown, or family wealth have the opportunity to work hard and build a middle-class life.

Housing, in particular, is a core pillar of economic stability and the middle class. Homeownership, when facilitated by safe, well-underwritten mortgages, helps families build and transfer wealth to the next generation. Affordable rental housing in safe neighborhoods near good jobs and schools helps families access the tools they need to move up the economic ladder. Yet, the tools for building a strong housing foundation are out of reach for broad swaths of America, including for many households of color, low and moderate-income families, and those living in small towns. This lack of access—and, at times, the intentional restriction of opportunity—undermines the strength of the American middle class.

While our nation has made progress toward addressing these deficits over the years, the housing crisis of 2007-2008 set communities back decades. The crisis, caused by Wall Street's predatory lending and excessive risk taking, wiped out $16.4 trillion in household wealth.[1] Millions of households—middle class and aspiring middle class—lost their financial foundation, with households of color bearing the greatest brunt.[2] The housing crisis triggered a global financial and economic crisis that cost the United States over 8 million jobs between December 2007 and March 2010.[3]

While the wealthiest have recovered, many families are still on the path to recovery, leading to historic levels of economic inequality. American neighborhoods have grown more racially and economically segregated. It is increasingly difficult for many families to rent an affordable home in a place with amenities such as good jobs, schools, and transportation.

The Obama administration tackled these obstacles aggressively. In 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act to make sure that Wall Street was never again allowed to take down the housing market and the economy through predatory mortgage lending and other dangerous practices. It banned trick-and-trap lending practices, created a consumer agency to police the system, ended banks' ability to bet against products they packaged, and directed a wide range of critical protections to prevent the system from imploding.[4]

The U.S. Department of Housing and Urban Development, or HUD, took important steps to ensure that more families have the chance to join the middle class by getting smarter about how it allocates federal dollars on community development. Through the Affirmatively Furthering Fair Housing rule, HUD asked local governments that receive federal housing and community development dollars to make a plan for addressing residential segregation and concentrated poverty in their communities and gave them the data and tools they needed to accomplish the task. Taxpayer dollars spent on alleviating poverty will go further in communities where local leaders are committed to building more inclusive, economically competitive communities.

As we look now to the future of civil rights in America as well as how to raise wages and ensure economic growth for the middle class, it is critical that we remember that a strong housing foundation is a key component of economic security. This issue brief reviews what we know about homeownership as the foundation for economic stability and thus, in no small part, social stability. It explores how the financial crisis and Great Recession have transformed the housing landscape; how the wounds of discrimination and segregation continue to fester; and how important it is to maintain and build on the progress made over the past eight years. Every family deserves a fair shot at owning a home or living where they can take advantage of economic and social opportunities. America's economy and society are more stable, whole, and prosperous when we give working families that shot.

Homeownership is a tool for building and transferring wealth

Homeownership, when structured in safe, sustainable way, offers families the opportunity to build wealth. Home equity typically represents the largest single contributor to a family's net worth. Families can draw on home equity to cover expenses during retirement, start a small business, or send a child to college. Perhaps most importantly, the wealth generated by home equity can be transferred to future generations, thus contributing to their future stability and financial well-being.

The cost and quality of housing affect a family's quality of life

The cost of housing is the biggest item in most families' budgets and the hardest to adjust. When housing costs go up, a family may have to cut back on essentials such as food, clothing, and medical care.

An increasing share of renters across the income spectrum are struggling to pay rent each month. Nearly half of renters are spending more than one-third of their monthly income on rent.[5] The cost of rent has increased dramatically in some parts of the country as the rental supply struggles to meet the increased demand for rental housing that has occurred since the foreclosure crisis. At the same time, real middle-class wages have been stagnant since 2001, making it harder for families to manage housing costs.[6]

Low-income households are hit hardest by increasing rent burdens. For example, the National Low Income Housing Coalition found that a renter earning the federal minimum wage of $7.25 per hour would need to work 90 hours per week to afford a one-bedroom rental home at the Fair Market Rent and work 112 hours per week to afford a two-bedroom rental home.[7]

Good-quality and affordable housing also has an important effect on family stability and creates a positive environment for raising children. In contrast, housing instability characterized by disruptive moves during childhood and adolescence can have strong negative effects on school performance.[8] Furthermore, housing that exposes individuals to hazards such as lead paint, dust, molds, and pests increases the incidence of chronic illness and limits lifelong educational and economic achievement.[9]

ZIP codes matter

Where individuals live affects their opportunities and life outcomes.[10] Where an individual lives determines one's access to education and job opportunities, public services, health care, and safety and security. When families rent or purchase housing, they acquire not just the services of the dwelling but also the advantages and disadvantages of its location.

Location of housing matters for employment opportunities.[11] For example, residing in the central city and in areas with limited public transportation in a region where job opportunities are concentrated in suburban areas places workers at a disadvantage in the job market, contributing to high unemployment rates. Housing location may also exclude families from jurisdictions with higher levels of public services and better-quality schools.

Outcomes of initiatives to help families move from high-poverty to low-poverty areas such as the Gautreaux Assisted Housing Program and the HUD Moving to Opportunity, or MTO, demonstration project during the 1990s showed that residential location matters for educational attainment and employment.[12] When public housing residents participating in these initiatives moved from high-poverty to lower-poverty areas, their employment rates improved significantly. Moreover, according to economist Raj Chetty, the neighborhoods in which children grow up play a significant role in determining their earnings, college attendance rates, and fertility and marriage rates.[13]

The foreclosure crisis still reverberates across our communities

The foreclosure crisis has resulted in the loss of home equity for millions of families across the nation and its impact still reverberates in many communities. Today, foreclosures are down nationally and the number of mortgages that are current continues to increase.[14] Despite a decline in foreclosures and negative equity rates, however, homes are still worth less money than what it is owed for them for more than 5 million American families.[15] Even among communities that are improving and experiencing fewer foreclosures, many continue to experience above average rates of negative equity, suggesting that their complete recovery may still take some time to materialize.

Negative equity is one of the principal challenges to an economic recovery, as it imposes significant costs not only on homeowners but also on local communities and the economy at large. When homeowners owe more on their homes than what they are worth, they are unable to draw on home equity to invest in their children's education or to start small businesses. In addition, as discussed in last year's CAP report, "The Uneven Housing Recovery,"[16] large concentrations of underwater properties threaten to induce future waves of foreclosures and can contribute to a continuing cycle of decline and disinvestment. Counties that are experiencing an increase in negative equity rates tend to be located in nonmetropolitan and rural areas, particularly in the Midwest, which are less likely to be equipped with the resources that could ease their recovery.[17]

Discrimination in the housing market and residential segregation contribute to wealth disparities

Residential segregation is a key institution for creating and maintaining wealth inequality. Combined with redlining and the ongoing lack of access to mortgage credit in communities of color, residential segregation has historically contributed to the inability of several generations of people of color to achieve homeownership and build up equity that could be transferred to and invested by subsequent generations.[18] The limited opportunities for homeownership and equity building of the past several decades, in turn, account for the current enormous racial gaps in wealth accumulation.

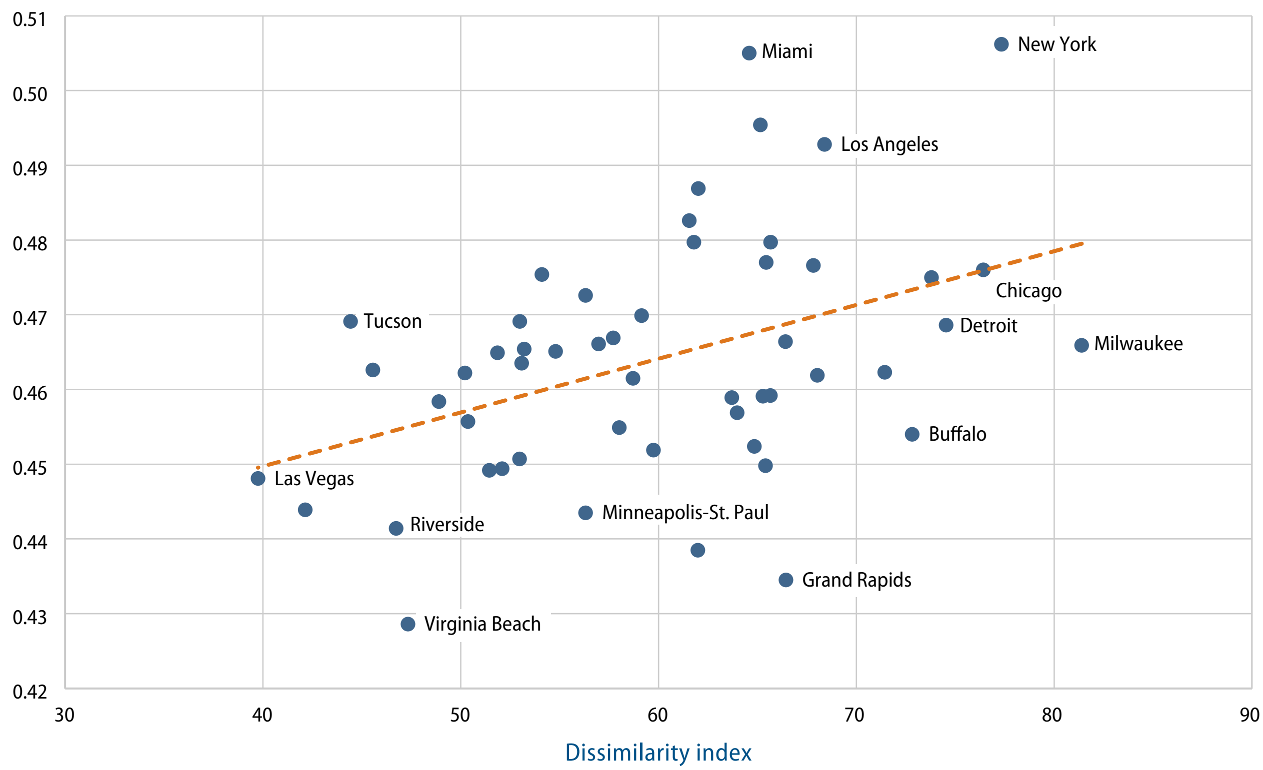
Although it has decreased since its peak in the 1970s, residential segregation remains high in many parts of America. Standard measures of residential segregation show that well over half of the African American population in the nation's largest metropolitan areas would have to move to a different neighborhood in order to achieve integration.[19] This residential segregation is highly correlated with measures of income inequality.[20] (see Figure 1)

Despite much progress in fair housing enforcement, millions of individuals continue to be excluded from equal access to housing and opportunity neighborhoods that their incomes and preferences might otherwise allow because of a host of discriminatory barriers in the housing market on the basis of race, color, religion, national origin, sex, familial status, disability, and gender identity.[21] People of color, in particular, are treated unequally in the home mortgage market, even when they demonstrate an ability to repay their loans and continue to lose ground in the homeownership market.[22] In addition, people of color and whites continue to purchase homes in separate neighborhoods, contributing to the persistence of residential segregation.[23]

FIGURE 1

Black-white residential segregation and income inequality

Largest U.S. metropolitan areas by Gini coefficient of income inequality, 2014



Sources: Gini coefficients come from U.S. Census Bureau, "2010-2014 ACS 5-year Estimates," available at http://www.census.gov/programs-surveys/acs/data/summary-file.2014.html (last accessed December 2016). Dissimilarity indexes come from William H. Frey, "Census shows modest declines in black-white segregation," The Brookings Institution, December 8, 2015, available at https://www.brookings.edu/blog/the-avenue/2015/12/08/census-shows-modest-declines-in-black-white-segregation/.

Much progress has been achieved to address these housing and economic challenges

Several important policies and programs have been implemented in the past 10 years to prevent predatory mortgage lending and address residential segregation. These policies and programs include, but are not limited to, the following:

- The Dodd-Frank Act, which is arguably the most comprehensive and promising financial regulatory reform passed since the Great Recession, and which implemented changes that support safe access to mortgage credit for consumers. These changes have once again made it possible for mortgages to be a tool for wealth building rather than a wealth-stripping tool. In addition to new mortgage rules, the Dodd-Frank Act established the Consumer Financial Protection Bureau, a new cop on the beat to protect consumers. The law also took important steps to strengthen the financial system to prevent another crisis. Some of these steps included greater Wall Street transparency; the separation of deposit-taking banks from swing-for-the-fences funds; capital and derivatives regulation; resolution authority that prevents the financial system from collapsing in a daisy-chain of uncontrolled failure; and more.

- Authorized by the Housing and Economic Recovery Act of 2008, or HERA, and fueled by funds set aside by Fannie Mae and Freddie Mac, the National Housing Trust Fund is a dedicated fund that will provide revenue to build, preserve, and rehabilitate housing for people that pay more than half their income toward rent as well as households that live in substandard or unsafe housing, which the private market is often unable to serve without financial support.

- HUD's Affirmatively Furthering Fair Housing rule, which bolsters the implementation of the Fair Housing Act by supporting the development of diverse, inclusive communities with access to good jobs, schools, health care, transportation, and housing. The rule is designed to reverse the effect of discriminatory practices on underserved communities and promote equal access to opportunity under the assumption that America's economic prosperity and global competitiveness are challenged when all of our communities do not have the opportunity to succeed together.

- HUD has developed new fair housing guidelines that protect lesbian, gay, bisexual, transgender, and queer individuals, survivors of domestic violence, and ex-offenders, who now finally have a better shot at avoiding discrimination and obtaining affordable housing.[24] In addition, the enforcement of the Fair Housing Act has been strengthened by the landmark U.S. Supreme Court decision *Texas Department of Housing and Community Affairs v. Inclusive Communities Project*, upholding the use of the disparate impact theory in fair housing claims, which means that regulators and judges can continue to evaluate whether a practice is discriminatory by assessing its impact—not simply by its intended impact.[25]

Do not repeat the mistakes of the past

After so much progress, we, as a nation, must not turn back the clock and return to the years of Wall Street's financial abuse and decades of housing discrimination. Working families and distressed communities across the country are still trying to rebuild their wealth in the wake of one of the worst economic crises in American history, and several million families remain in desperate need of decent and affordable rental housing.

Because housing is so deeply intertwined with economic and social well-being, poor access to decent and affordable housing and the wealth-building opportunities associated with it can seriously affect families' prospects for upward social and economic mobility. The adoption of the Financial Choice Act—perhaps more properly called the Financial Industry's Choice Act— would roll back significant portions of Dodd-Frank and deeply undermine consumer protection and the progress achieved so far in ensuring that all families and communities have a fair shot at safe credit, housing stability, economic recovery, and wealth building.[26]

Nearly 50 years since the passage of fair housing legislation, more people have greater access to equal opportunities to good-quality and affordable housing. We cannot afford to undo this very real but vulnerable progress in fair housing, especially at a time when the country is witnessing profound demographic and social changes. America's population is becoming more diverse in terms of race, ethnicity, and national origins, and the senior population is projected to represent one of the largest segments of the demand for housing.[27] Given this increasing diversity, efforts to roll back housing protections would be greatly damaging to a wide range of Americans—from rural communities often ignored by the big banks to people of color and LGBTQ groups—as well as undermine the common foundation of our country's economic and social stability and long-term prosperity.[28]

Widely available affordable and fair housing are the pillars of a middle-class economy and a stable, just society. Government has an essential role to play. Without sustained support for the middle class and a commitment to the progress toward equality achieved so far—especially in housing—America could repeat the economic crisis and the great damage it caused to us all.

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Endnotes

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16 Michela Zonta and Sarah Edelman, "The Uneven Recovery" (Washington: Center for American Progress, 2015), available at https://www.americanprogress.org/issues/economy/reports/2015/11/02/123537/the-uneven-housing-recovery/.

17 Ibid.

18 Melvin L. Oliver and Thomas M. Shapiro, *Black Wealth/White Wealth: A New Perspective on Racial Inequality:* Second Edition (New York: Routledge, 2006).

19 William H. Frey, "Census shows modest declines in black-white segregation" (Washington: Brookings Institution, 2015) available at https://www.brookings.edu/blog/the-avenue/2015/12/08/census-shows-modest-declines-in-black-white-segregation/.

20 Figure 1 plots segregation levels for the nation's largest 52 metropolitan areas against the corresponding Gini coefficients of income inequality. A Gini coefficient of zero expresses perfect equality where all values are the same—for example, where everyone has the same income. A Gini coefficient of one—or 100 percent—expresses maximal inequality among values—for example, where only one person has all the income or consumption, and all others have none. The dissimilarity index measures the relative separation or integration of groups across all neighborhoods of a city or metropolitan area. If a city's black-white dissimilarity index were 70, that would mean that 70 percent of black people would need to move to another neighborhood to make blacks and whites evenly distributed across all neighborhoods. The graph shows that with increasing levels of segregation, income inequality also increases.

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