Closing the Racial Wealth Gap in Cincinnati, Ohio

Policy Lab

A PROJECT OF THE:
Sumner M. Redstone Global Center for Prevention & Wellness
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THE ISSUE

The nation's racial wealth gap is staggering, with white households possessing more than 6X the wealth of Black households.[i] A leading contributor to the wealth gap – the difference in homeownership rates by race. Homeownership is the primary means by which wealth is passed from generation to generation, and it plays a larger role in creating wealth for Black families than it does for white families. **Home equity makes up close to 60 percent of the total net worth for Black families, compared with 43 percent of total net worth for white families.**

HOW WE GOT HERE

Historically white families have faced fewer obstacles to buying a home, and therefore have a higher likelihood of inheriting homes, investment real estate, and other forms of intergenerational transfers than Black families. Black families have faced numerous challenges to home ownership including discriminatory real estate practices, limited access to jobs that would provide income to support buying a home, and the lasting effects of Urban Renewal projects that predominately displaced and destroyed the economic potential of Black communities such as Cincinnati's West End. **Accumulated wealth allows White families to create investment portfolios that build upon the previous generation's wealth, further widening the gap between white and Black families.**[ii]

CINCINNATI CONTEXT

In 2018 the national Black-white homeownership gap was 30.5 points, the highest since 1960.[iii] **There is a 40-point difference in Black-white home ownership in Cincinnati—making it one of the largest gaps among Midwestern cities.**[iv] Cincinnati also has the second lowest Black homeownership in the region at 33 percent, compared to Cleveland (37.2 percent), Columbus (29.7 percent), and Louisville (37 percent).[v, vi] This disparity is in part the result of the City of Cincinnati's 1948 Metropolitan Master Plan, which called for the large-scale demolition of the Historic West End to construct the Queensgate Center for light industry and Millcreek Expressway (Interstate 75). The subsequent Kenyon-Barr Urban Redevelopment project razed the lower West End community, forcing removal of 25,737 residents — ninety-seven percent of whom were Black. The displacement created consequences that greatly damaged residents' economic prospects, including housing instability, destabilized social cohesion, and changes to proximity to work and education.

As homeownership and poverty are related, the role of the racial wealth gap and lack of homeownership is exacerbated by Cincinnati's high poverty rate, including the highest child poverty rate in the country.[vii] Minority and low-income communities often face high rent-burden, while owning a home is often more affordable than renting, and provides stability that can enhance economic mobility.[viii] Increasing access to homeownership is a targeted strategy to lift up all communities living in poverty, as well as close the racial wealth gap**. Cincinnati has the potential to close the racial wealth gap and drive equitable housing outcomes using a comprehensive housing and economic mobility strategy.**

NEIGHBORHOOD STRATEGY

Using a neighborhood-based analysis of Avondale and Riverside, we conclude **there is opportunity to increase homeownership using small dollar mortgages as a tactic in a larger strategy — including apprenticeship programs to support needed home repairs that help keep legacy owners in place but also provide skills training, small business investments in Black neighborhoods, and public-private partnerships. We will create a comprehensive set of recommendations as part of our place-based study aimed at identifying strategies for Cincinnati to close the racial wealth gap and increase economic mobility for lower-income households of all races.**

Avondale and Riverside: Divergent & Parallel

Owner occupied rates in Avondale (31%), a historically Black community, are much lower than in Riverside (55%) a predominantly white neighborhood with similar demographics such as educational attainment. The chart below demonstrates the opportunity to stabilize families and communities of lower income by targeting Black neighborhoods like Avondale and lower income white neighborhoods such as Riverside as a key tactic to address the city's long-standing burden of generational poverty.

Demographic Comparison by Neighborhood

Avondale	West End	Riverside
84% Black; 10.6% White; 1.1% Hispanic	81.45 Black; 20.3% White; 0.5% Asian	81% White; 16.29% Black; 0.13% Asian
Median Income: $21,000	Median Income: $26,234	Median Income: $28,600
Median Rent (2019): $549	Median Rent (2019): $749	Median Rent: $835
Educational Attainment: • Higher Degree: 22.3% • HS. Diploma: 55.0% • No HS. Diploma: 22.7%	Educational Attainment: • Higher Degree: 14.6% • HS. Diploma: 24.0% • No HS. Diploma: 9.8%	Educational Attainment: • Higher Degree: 24.6% • HS. Diploma: 58% • No HS. Diploma: 17.4%
Owner occupied housing: • 31.16% Renter occupied housing: • 68.82%	Owner occupied housing: • 37.8% Renter occupied housing: • 62.2%	Owner occupied housing: • 55.83 % Renter occupied housing: • 47.17%

Figure 1: This chart shows the demographic comparison between the neighborhoods of Avondale, West End, and Riverside. The median household income for Riverside is slightly higher than that of Avondale and significantly higher than West End. Educational attainment is lowest in West End and owner-occupied housing is highest in Riverside.[ix, x]

PARTNERSHIP OPPORTUNITY

Cincinnati is home to five Fortune 500 companies, including Procter & Gamble, and Fifth Third Bancorp, many of whom have outlined equity commitments to uplift communities of color. Fifth Third Bancorp has made equity commitments specifically around housing.[xi] As part of a $2.8 billion commitment to accelerate racial equity, Fifth Third has pledged to expand access to home loans, with a goal of increasing their mortgage lending by 31% to achieve "parity in its top eight markets where Black Americans reside."[xii] On the local front, as part of a national neighborhood investment program, Fifth Third is providing up to $20 million to the Avondale Development Corporation to improve housing equity in Avondale through SDM, home repair loans and grants, and "back in business" efforts.[xiii] While Fifth Third's investments are important, **there is opportunity to leverage equity commitments made by Cincinnati-based corporations to create a public-private partnership with the potential to be a national model aimed at closing the racial wealth gap and breaking cycles of generational poverty.**

P&G launched the Take on Race Fund, with an initial investment of $5 million, to drive systemic change alongside other key business parents to advance economic opportunity and make communities more equitable.[xiv] P&G is also supporting local organizations in Cincinnati, such as the African American Chamber of Commerce and Minority Business Accelerator.[xv] The Kroger Co. Foundation launched a Racial Equity Fund with $3 million for grants and partnerships with innovative organizations, with a goal of using funds to advance racial equity with community partners.[xvi]

Faith-based partners in Cincinnati are already working with minority-owned lending institutions, including black-owned banks, to support investments in Black communities that could include an SDM program and other strategies for building community wealth. Currently there are three black-owned financial institutions in Ohio: OneUnited Bank, Faith Community United Credit Union, and Toledo Urban Federal Credit Union.[xvii] Black-owned banks have focused their lending on predominantly Black communities, including small businesses, nonprofits, and Black homebuyers, and generally lend in greater shares to low- and middle-income individuals.[xviii] These investments by black-owned banks offer economic opportunities to build community wealth, such as through minority-owned businesses. **Creating a partnership with Cincinnati-based corporate partners and Black-owned financial institutions could spur investments in neighborhoods like Avondale that help to increase home ownership and minority-owned business—both key metrics in creating an economically equitable Cincinnati.**

PARTNERS IN POLICY

Political momentum to increase the city's stock of affordable housing has been advanced by many members of City Council and the Mayor.[xix] The Council Equitable Growth and Housing Committee can be a coordinating committee in bringing key stakeholders to the table.[xx] The Council can use the recently approved plan by Mayor Pureval to increase funding and create a dedicated revenue source for the Affordable Housing Trust Fund in Cincinnati as a starting point for additional investments from corporate partners.[xxi] **The housing fund is a designated pool of public and private dollars that can be used to help develop, build, and maintain affordable housing for individuals. With a balance of $57 million the fund is largely focused on incentivizing developers to create more affordable rental housing, with grants or low-interest loans. Rather than earmarking such a large investment to benefit developers directly and community indirectly, there is opportunity to diversity the housing strategy**

with private partners to invest in families directly through providing access to home ownership. [xxii]

Other local groups are also focused on increasing access to affordable housing and homeownership, such as the Greater Cincinnati Foundation and local faith leaders.[xxiii,xxiv] A coalition of stakeholders across the public, private, and non-profit sectors in Cincinnati have outlined a strategy around affordable housing, published in the "Housing Our Future" Report, which includes policies and programs to provide pathways to sustainable homeownership and generational wealth creation.[xxv] **The report specifically lists how the City and County should work with lenders to increase "innovative home purchase financing products," such as SDM.[xxvi] SDM is one part of a larger strategy in the report to increase access to housing in the city. Other solutions include producing new, affordable units, changing zoning policies that restrict resident's ability to access quality housing, reinvesting, and preserving existing units as livable and affordable.**

Recognizing that homeownership is just part of the puzzle, there is a need for new homeowners to be able to afford and manage home repairs and other maintenance projects that are important for home upkeep. The city has invested in the Housing Repair Services (HRS) Program, as well as offering loans through the Home Improvement Program (HIP); however, there is a need to further support private citizens in homeownership and home management.[xxvii,xxviii]

Opportunities for Federal Support:

- *Improving FHA Support for Small-Dollar Mortgages Act of 2021 (HR.1532/S.2131)*: Directs the Department of Housing and Urban Development (HUD) to report on barriers to making FHA single-family home mortgage insurance available for mortgages under $70,000. HUD must report on actions that will be taken to remove barriers to these mortgages.
- *Housing Supply Action Plan:* The Biden-Harris administration released a plan in May 2022 to help close the housing supply gap in five years. The plan includes expanding forms of federal financing for affordable multifamily development and ensuring more government-owned supply of homes and other housing goes to owners who will live in them.

The MicroMortgage Marketplace

The MicroMortgage Marketplace Demonstration project is a partnership between a community development financial institution (CDFI), the Homeownership Council of America (HCA), and Urban Institute to develop a solution to the lack of financing in low-cost housing markets.[1] Based in Louisville, Kentucky, the project tested a SDM option delivered through CDFIs, and included the following aspects:

- Expanding underwriting criteria to include borrowers who are overlooked by traditional underwriting, paired with required homebuyer education.
- Reducing ancillary mortgage fees and costs in the origination process, including for appraisals and titles.
- Using automated valuation models (AVMs) to streamline processes and reduce costs.

RECOMMENDATIONS

A strategy to increase affordable housing should not focus solely on increasing rental units. The current crisis provides opportunity to address one the city's most entrenched social issues—generational poverty in both Black and white families. Using a targeted strategy in neighborhoods such as West End and Avondale provides a pathway for all low-income neighborhoods. Below are opportunities to address the city's poverty rate and affordable housing crisis.

Evaluate and expand neighborhood investment projects and lending efforts by private groups. City leaders should evaluate neighborhood investment programs, such as Fifth Third in Avondale, to measure whether SDMs increase homeownership rates for low-income and Black families. Similar initiatives can be piloted in other neighborhoods using investments from other financial partners or Cincinnati-based corporations (e.g. Kroger, Procter & Gamble, etc.). Additionally, the City's Affordable Housing Trust Fund could be used to support SDM projects.

Identify funding sources for increased lending and ability to originate SDM, such as Community Development Financial Institutions (CDFIs) and minority-owned lending institutions. Secure low-cost funding sources to pass on a more competitive interest rate to homebuyers. Lending groups should consider changes to make SDM more accessible, such as: flexible underwriting, providing homebuyer education, reducing fees, leveraging CDFIs, and the use of automated valuation tools.[xxix]

Preserve the availability of affordable single-family homes for owner-occupants. Ensuring broad marketing and showings of low-cost homes could help level the playing field for first-time home buyers. Enforcing the use of first-look programs could increase opportunities for owner-occupants to bid on housing before investors have the chance to buy. The Biden Administration is taking steps to expand this type of first-look program by directing supply to owner-occupants and mission-drive entities.[xxx]

BACKGROUND: Small Dollar Mortgage Strategy

A crucial step toward homeownership is obtaining a mortgage. Without access to a small dollar mortgage, homeownership is out of reach for most low- and moderate-income families. Nationally in 2019, 26.7 percent of home sales were for homes priced below $100,000. Of those, only 23.2 percent were purchased with a mortgage, while 73.5 percent of homes priced above $100,000 were purchased with a mortgage.[xxxi] While the Federal Housing Administration (FHA) provides mortgages to underserved, creditworthy borrowers; FHA loans are disproportionately denied to potential buyers of low-cost homes. The FHA lending share for SDM is lower for all income categories compared to larger dollar loans. Most SDMs come from conventional channels from banks and other private lenders.

Higher denial rates for SDM stem from a lower return on investment for lenders.[xxxii] SDM can be viewed by some as predatory, due to the fixed costs of lending (e.g. appraisal costs) making up a larger percent of these smaller loans—but this is not the case in practice. These loans are more challenging to underwrite than typical, larger transactions in communities with higher median incomes and therefore should be used as a strategy to increase home ownership of lower-priced homes with lower-income residents. Financial institutions are therefore less likely to originate SDMs for higher median income families.[xxxiii]

The largest threat to this strategy is the increasing trend of investors purchasing lower priced properties in neighborhoods such as West End, Riverside and Avondale for future development, thereby taking available stock off the market. **In 2021, more than 25% of all purchases nationally were bought by investors, with more than half of these purchases being made by investors with more than 10 properties. Investors purchasing single-family homes drives up the price, specifically for lower-cost homes, increasing barriers for first-time home buyers to get into the market.**[xxxiv]

The Policy Lab at the Center for Community Resilience (CCR) provides a national platform to support innovative policy solutions that foster equity and address the Pair of ACEs. The Policy Lab's nonpartisan approach helps CCR support significant legislative wins to improve child and family well-being, strengthen community resilience, foster equity, promote cross-sector integration, and dismantle systemic drivers of adversity.

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