Improving Homeownership Rates for Black, Indigenous, and People of Color in Washington

Recommendations from the Homeownership Disparities Work Group

September 2022

Final Report

Acknowledgments

This report results from a joint effort between the Washington State Homeownership Disparities Work Group (the Work Group) and the Department of Commerce and represents the Work Group's recommendations for reducing homeownership disparities in Washington. The 2021 Washington State Legislature provided funding and tasked the Department of Commerce to convene the Work Group and report its recommendations by August 1, 2022. More information on the project, including meetings and materials, can be found on the Department of Commerce website.

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Staff and project team members are grateful to the numerous stakeholders who participated in focus group conversations and interviews relating to the processes and best practices in expanding homeownership opportunities, particularly those who shared their firsthand experiences in the home buying process.

Special Acknowledgement

Special acknowledgement and gratitude to Dr. Karen Johnson and Megan Matthews at the Governor's Office of Equity for their extensive support and guidance with reviewing and finalizing this report.

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Letter from Director Brown

The real estate market has gone through tremendous change in the past few years as our state navigated a global pandemic that further impacted supply, demand, and affordability. Simultaneously, our state began to seriously consider and confront racial inequities—something long overdue. As we work to amplify and center the experiences of Washington's communities of Black, Indigenous, and people of color (BIPOC), we create a more equitable and just state for all our residents.

These two areas intersect within the context of homeownership. Homeownership is an aspiration for many as a means to build wealth, stability, and community. However, due to systemic racism coded into our laws, policies, and practices—and a severe mismatch in housing supply and demand that has pushed home prices to record highs—more than 143,000 households who identify as BIPOC have been locked out of achieving this goal. The homeownership rate for BIPOC households in Washington is 19 percentage points below that of non-Hispanic white households (49% and 68%, respectively, as of 2019). And like in so many other areas where disparities exist, Black households fare even worse than other households of color; the homeownership rate for Black households is only 31%, less than half that of non-Hispanic whites.

These statistics paint a picture that is appalling and unacceptable. Like many of you reading this report, I spent the past few years reading books like Richard Rothstein's *Color of Law,* exploring how public and private policies and practices, such as racially restrictive covenants, redlining, and blockbusting have collectively worked to deny Black, Indigenous, and other persons of color the ability to own a home. Our state is the sum of all of us, to note Heather McGhee, and when we fail to ensure opportunities to achieve prosperity based on one's racial and/or ethnic background, we fail to live up to our values as a state.

History has taught us that it took generations of systemic, racist, and discriminatory policies and practices to get to where we are today. Understanding this, we know that systemic and structural changes at all levels of government are the only answer. I am proud to have served as Chair of the Homeownership Disparities Work Group, which developed this report calling for structural change across both industry and government. We are recommending changes to the real estate and lending industries and suggesting policy revisions and funding priorities across all levels of government to unlock housing supply and direct affordable homeownership units toward BIPOC communities and increase direct assistance to prospective and current BIPOC homeowners.

I have faith in the recommendations put forth by the Homeownership Disparities Work Group, a diverse group of people with lived experience buying homes through state programs and experts from a wide range of fields, including affordable homeownership, real estate, fair housing, mortgage lending, housing development, and the specific needs of BIPOC communities. Convened by the Department of Commerce, this group spent nearly a year reviewing data, analyzing trends and practices (including within Commerce), and seeking out best practices to remove barriers to homeownership for Washingtonians of color. Along with my Work Group colleagues, I am committed to continuing to strive for equity and justice in the homeownership system.

I want to thank my staff and the consultant team for managing this process effectively, efficiently, and equitably; the Work Group members for lending their time, experience, and expertise to this important topic; and the many public stakeholders who participated and shared their homeownership experiences. This report lays out various recommendations that the executive and legislative branches can use to begin to right past wrongs and chart a new course. I look forward to working together to implement the recommendations and ensure that Washington is a place where everyone has the opportunity to realize dreams of homeownership.

Gratefully,

Director Lisa Brown, PhD

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Executive Summary

In addition to being a cultural pillar, many people consider homeownership to be the primary way to build wealth in the United States.[1] Access to homeownership strengthens one's sense of community and belonging and offers financial security and wealth—the long-term profitability of homeownership is more favorable than many other financial investments, even when factoring in periods of home price depreciation.[2] But this access has not been evenly distributed; public and private sector policies have for generations built an interlocking web of barriers preventing many Black, Indigenous, and people of color (BIPOC) from achieving homeownership. Racist government policies like zoning, mortgage subsidies or incentives, real estate practices like redlining and deed restrictions, and outright discrimination in appraisals and lending practices resulted in disproportional benefits in homeownership for a privileged subset of households—namely white and higher-income households—while systematically excluding, segregating, and denying opportunity to low-income households and people of color.

In this report, the term "BIPOC" includes Black, Indigenous, Hispanic/ Latino, Asian, and any other minoritized group that does not identify as white or within other categories (further introduction to this term can be found on p.3).

While these policies and practices were in effect nationwide, Washington's housing market has been uniquely troubled by decades of underproduction against a backdrop of strong economic growth. By some estimates, Washington has produced the fewest housing units relative to its household growth than any other state in the country.[3]

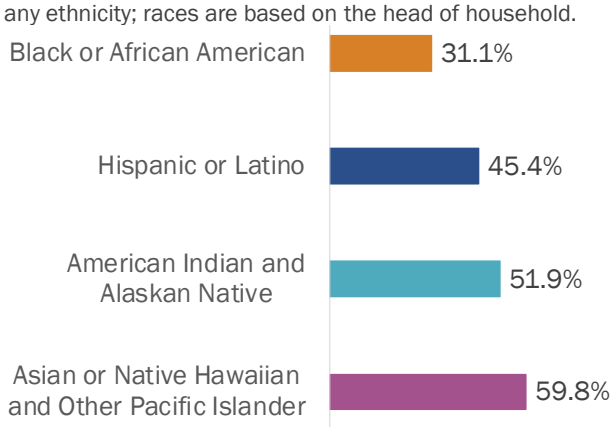
This imbalance in supply and demand has contributed to dramatic home price growth. From 2000 to 2020, the median home price in Washington increased 157%, and from 2019 to 2020, median home prices increased 13.7% in just one year.[4] This housing affordability crisis is not limited to urban areas; the COVID-19 pandemic pushed the issue of underproduction from major cities into many rural areas that attract remote-workers—so-called "Zoom towns" like San Juan, Chelan, and Okanogan Counties.[5]

With home prices reaching record highs and buyers paying cash and offering thousands of dollars over asking prices, homeownership has shifted out of reach for far too many households, particularly BIPOC households. According to an analysis of census American Community Survey (ACS) data, the BIPOC homeownership rate in Washington is 49%, slightly higher than the national BIPOC homeownership rate, but 19 percentage points below that of non-Hispanic white households in Washington (with a homeownership rate of 68%, as of 2019). And within the BIPOC community, the homeownership rate also varies; the homeownership rate for Black and Hispanic/Latino Washington households is only 31% and 45%, respectively. Asian American and Pacific

Islander homeownership rates are highest among BIPOC households at 60%. Alarmingly, for some of these groups, these rates are worsening: the Black-white homeownership gap is worse today than it was in the 1960s when racial discrimination in housing was legal.[6]

Figure 1. Washington Homeownership Rate by Race/Ethnicity, 2019 [i]

Source: U.S. Census Bureau ACS 1-year, 2019; races are of any ethnicity; races are based on the head of household.

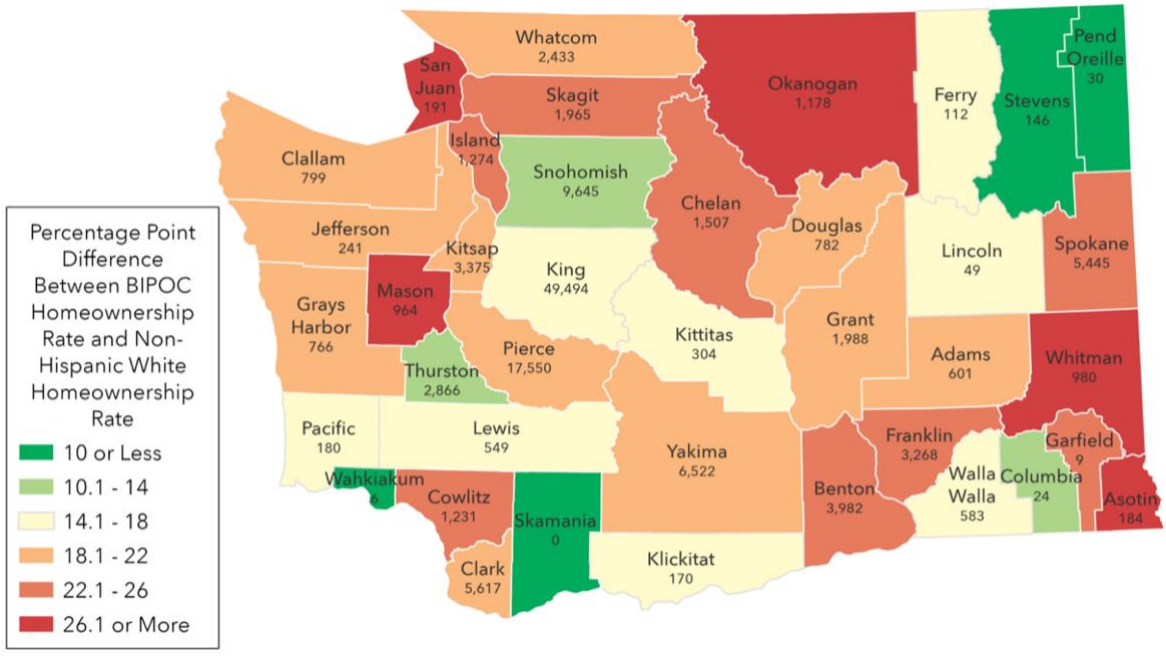


More than 143,000 BIPOC households would need to become homeowners for the BIPOC homeownership rate to equal the non-Hispanic white homeownership rate.

Figure 2 shows these "missing" BIPOC homeowners in each county. The data in each county represent the number of BIPOC households that would need to become homeowners for that county's BIPOC homeownership rate to equal that of non-Hispanic white households.

Figure 2. "Missing" BIPOC Homeowners in Washington State, 2019

Source: U.S. Census Bureau ACS 1-year, 2019.



[i] This report uses the Census Bureau's 2019 American Community Survey data because it was the most recent at the time analysis was completed. In addition, there are numerous known issues relating to the accuracy of the 2020 decennial census, particularly relating to undercounts of people who identify as Hispanic and young children and overcounts of people who identify as Asian and people over age 50 (who are disproportionately white). These and other challenges with the 2020 decennial census are summarized by the Pew Research Center here: https://www.pewresearch.org/fact-tank/2022/06/08/key-facts-about-the-quality-of-the-2020-census/.

Just as the presence of BIPOC households varies across the state, so do the disparities: King County would need the largest number of BIPOC households to become homeowners to reach homeownership rate parity, but its relative disparity is near the middle (demonstrated by the percentage point gap between the non-Hispanic white homeownership rate and the BIPOC homeownership rate). In contrast, many less populous counties, such as Mason, San Juan, Okanogan, Whitman, and Asotin need fewer BIPOC households to become homeowners to reach parity, but the homeownership gap between non-Hispanic white and BIPOC households is larger.

The cumulative impacts of generations of discriminatory and racist real estate policies and practices have had lasting negative effects on households of color and historically marginalized communities in ways that touch nearly every aspect of their lives. Today, households of color disproportionately experience homelessness and rental cost burdening,[ii] live in substandard housing or near pollutants, and have lower rates of homeownership.[7] Unfortunately, many of these Washington trends are worse than national statistics, and many have worsened over time.[iii]

Recognizing the urgency and magnitude of this issue, the Washington State Legislature funded the creation of the Homeownership Disparities Work Group. Through this 10-month effort, thought leaders and experts in affordable homeownership, real estate, fair housing, mortgage lending, housing development, and the specific needs of communities of color have worked to identify recommendations that can guide the governor, the Legislature, and other stakeholders on policy and program changes that could help to reduce homeownership disparities.

The legislative requirement in the 2021-23 biennial operating budget (ESSB 5092, Sec 129 (100), Laws of 2021), which funded this Work Group, specifically sought to identify barriers and offer recommendations that reduce the disparity in homeownership for "Black, Indigenous, and people of color." Often shortened to "BIPOC," this fairly new but widely used term aims to be inclusive while also highlighting the unique circumstances of Black and Indigenous Americans. In creating this Work Group, the Legislature recognized the homeownership disparities that exist between white and BIPOC households and the need to create solutions for these communities.

[ii] The U.S. Department of Housing & Urban Development (HUD) considers housing to be affordable when a household pays less than 30% of its gross income on housing costs; paying more than 30% makes the household cost burdened. For homeownership, this threshold differs. See a glossary of terms in Appendix A. Housing Definitions.
[iii] See Chapter 1. The State of BIPOC Homeownership in Washington for trends on homeownership.

If Washington were to close the homeownership gap between white and BIPOC households, more than 143,000 additional BIPOC households would need to become homeowners. This is a massive challenge, given the scale of the issue, the lack of affordable homeownership options, the inadequacy of existing funding, and the systemic barriers that have plagued access to housing for generations and continue to affect BIPOC households' financial opportunities.

More than 143,000 additional BIPOC households would need to become homeowners for Washington to close the homeownership gap between white and BIPOC households.

Priority Recommendations

Many of the recommendations advanced in this report are intentionally bold and encourage sweeping changes to numerous industries or current laws. The Work Group believes that bold initiatives are needed for substantive change to occur. After assessing data, literature, existing research, and the limitations of current state-funded homeownership programs, the Work Group prioritized 27 recommendations with the best chance to overcome what it sees as the two biggest barriers to BIPOC homeownership: the lack of affordable homeownership supply and insufficient assistance for BIPOC households who want to become homeowners. The 27 priority recommendations are grouped by "readiness:" those that can be advanced in the next several years through administrative action at a state agency or legislative funding action and longer-term actions that require legislative law and policy changes, new programs, or additional research.

The 12 ready and actionable recommendations are:

1. Increase biennial state funding for affordable homeownership programs, including land acquisition and predevelopment costs.
2. Fund a technical assistance/capacity-building program to build the nonprofit organizational infrastructure to develop, finance, facilitate, build, and steward all types of affordable homeownership projects.
3. Provide technical planning assistance and resources to municipal governments to increase affordable homeownership units.
4. Revise Housing Trust Fund and Housing Finance Commission programs to reduce the administrative burdens on applicants.
5. Increase the amount of funding available for direct assistance to homebuyers and homeowners.
6. Make current programs more flexible by increasing the per-household limits on existing assistance awards.
7. Target homeownership assistance to the BIPOC community via historical ties to culturally specific areas.

8. Provide incentives to home sellers to accept offers from purchasers using down payment assistance programs.
9. Expand debt mediation and credit repair programs.
10. Ensure that awareness of homeownership programs is part of licensing and education requirements for people in the real estate industry.
11. Fund culturally specific organizations for outreach to increase the visibility of and access to homeownership assistance programs for BIPOC communities.
12. Explore policies to improve connections with BIPOC communities to ensure that interest in homeownership is understood by funders.

Race-Based vs. Race-Neutral Recommendations

Many members of the Work Group would have preferred to recommend outright and explicit intervention to support BIPOC households and improve homeownership rates in accordance with Washington's statutory principles of equity found in RCW 43.06D.020(3)(a)(i-iii), which include:

i. Equity requires developing, strengthening, and supporting policies and procedures that distribute and prioritize resources to those who have been historically and currently marginalized, including tribes;
ii. Equity requires the elimination of systemic barriers that have been deeply entrenched in systems of inequality and oppression; and
iii. Equity achieves procedural and outcome fairness, promoting dignity, honor, and respect for all people;

Policies and programs granting preferential treatment to people based on protected classes (such as race) are prohibited in most circumstances.[8] Where they are allowed, race-based policies require substantial evidence and narrow policy interventions. Recognizing the limitations of the current legal system and understanding that public opinion and state policy on reducing racial disparities have moved (and continue to move) faster than current laws, many members of the Work Group agree that highlighting these needs and encouraging advocacy for further change are incredibly important. This is discussed further in Chapter 5.

The Work Group hopes that, if implemented successfully over the next few biennia, these recommendations can increase direct assistance for prospective homeowners of color while increasing the housing supply to stop runaway price increases that disproportionally limit BIPOC homeownership across Washington. Ultimately, the Work Group believes that these recommendations, if implemented strategically, can reduce the growing homeownership gaps between white and BIPOC households.

What Does This Report Do?

This report culminates a nearly yearlong effort by the Washington State Homeownership Disparities Work Group to study homeownership disparities between BIPOC and white households across the state and make actionable recommendations to the governor and Washington State Legislature to reduce homeownership inequity. The report is organized into six chapters stepping through the data, barriers, current state assistance programs, federal laws, and recommendations. Two appendices provide more data and findings to support the recommendations.

Other State Affordable Homeownership and Housing Efforts

This report advances many other efforts the state has undertaken to increase affordable homeownership opportunities. A few specific examples include the following:

- The Racial Wealth Gap is the Housing Gap, 2022, Office of Lieutenant Governor Denny Heck
- Affordable and Supportive Housing Sales and Use Tax, 2021, Department of Commerce
- Assessment of the housing needs of American Indians, Alaska Natives and Native Hawaiians in Washington, 2021, Department of Commerce
- Foreclosure Fairness Program, 2021, Department of Commerce
- Housing Trust Fund Cost Data Report, 2021
- Washington Farmworker Housing Needs Assessment, 2021, Department of Commerce
- Affordable Housing Cost Data Report, 2020, Department of Commerce
- Affordable and Supportive Housing Tax Credit, 2020, Department of Commerce
- Foreclose Fairness Report, 2020, Department of Commerce
- Landlord Mitigation Program Report, 2020, Department of Commerce
- Manufactured Housing Communities Workgroup Report, 2020, Department of Commerce
- Affordable Housing Cost Data, 2019, Department of Commerce
- Affordable Housing Update, 2019, Department of Commerce
- Encouraging Investments in Affordable and Supportive Housing — Update on Implementation, 2019, Department of Commerce
- Foreclosure Fairness Program, 2019, Department of Commerce
- Homeless Housing Crisis Response System Strategic Plan 2019-2024, 2019, Department of Commerce

Legislative Directive

In the 2021 legislative session, the Washington State Department of Commerce was directed to create the Homeownership Disparities Work Group (ESSB 5092, Sec 129 (100), Laws of 2021). The legislative requirements are described below:

> (a) $300,000 of the general fund—state appropriation for fiscal year 2022 is provided solely for the department to convene a work group on reducing racial disparities in Washington state homeownership rates. The goals of the work group are to assess perspectives on housing and lending laws, policies, and practices; facilitate discussion among interested parties; and develop budgetary, administrative policy, and legislative recommendations.
>
> (b) The director of the department, or the director's designee, must chair the work group. The department must, in consultation with the Washington state office of equity and the governor's office of Indian affairs, appoint a minimum of twelve members to the work group representing groups including but not limited to:
>
> > (i) Organizations and state entities led by and serving Black, Indigenous, and people of color;
> > (ii) State or local government agencies with expertise in housing and lending laws;
> > (iii) Associations representing cities and housing authorities; and
> > (iv) Professionals from private-sector industries including but not limited to banks, credit unions, mortgage brokers, and housing developers.
>
> (c) The department must convene the first meeting of the work group by August 1, 2021. The department must submit a final report to the governor and appropriate committees of the legislature by August 1, 2022. The final report must:
>
> > (i) Evaluate the distribution of state affordable housing funds and its impact on the creation of homeownership units serving Black, Indigenous, and people of color;
> > (ii) Evaluate the eligibility requirements, access, and use of state-funded down payment assistance funds, and their impact on homeownership rate disparities;
> > (iii) Review barriers preventing Black, Indigenous, and people of color from accessing credit and loans through traditional banks for residential loans; and
> > (iv) Provide budgetary, administrative policy, and legislative recommendations to increase ownership unit development and access to credit.

The Homeownership Disparities Work Group

The Department of Commerce (Commerce) recruited and appointed a group of stakeholders representing many perspectives that intersect with housing. The resulting 32-person Homeownership Disparities Work Group (Work Group) was intentionally diverse across race, ethnicity, gender, and income. The Work Group consists of experts in affordable homeownership, real estate, fair housing, mortgage lending, housing development, and the specific needs of BIPOC communities. The Work Group has representation across the state and includes two individuals with lived experience buying homes through the Housing Trust Fund low-income homeownership program across the state. Commerce Director Lisa Brown chairs the Work Group.

The Work Group aims to provide insight on expectations, barriers, best practices, and recommendations to the governor and the Legislature to reduce the homeownership gap between white and BIPOC households in Washington.

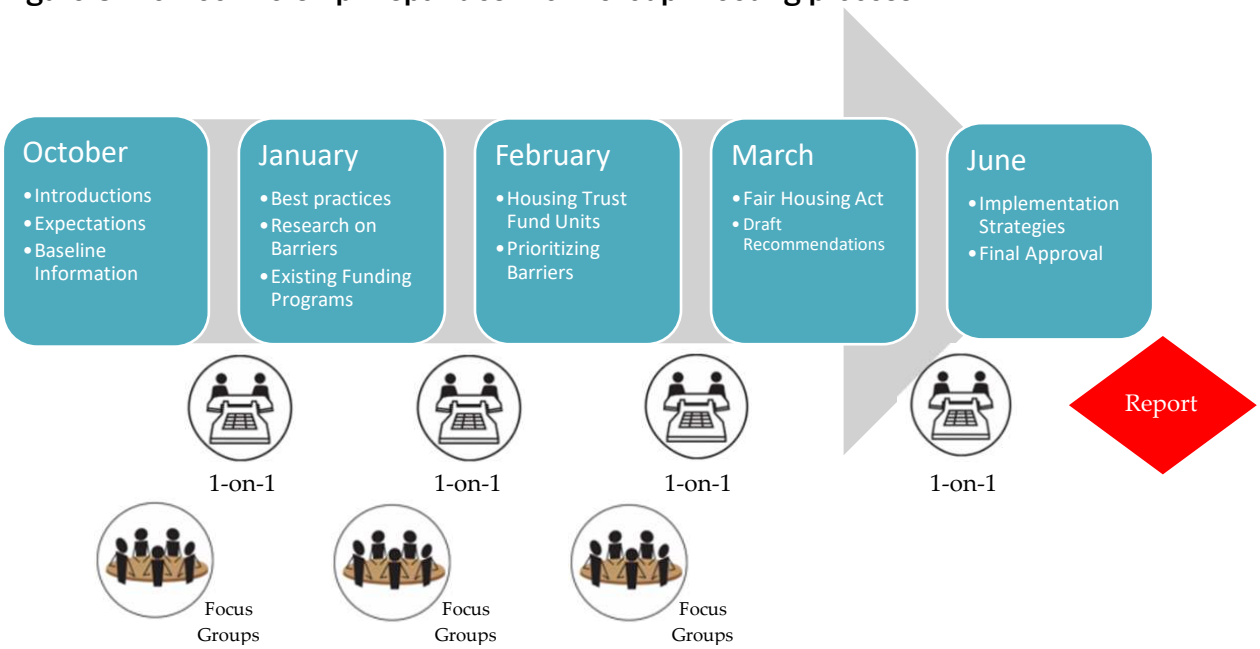
The legislative proviso directed Commerce to consult with the newly created Washington Office of Equity and the Governor's Office on Indian Affairs on establishing the Work Group. Commerce was unable to meet this requirement, however, we received invaluable feedback from the Office of Equity on the report and the Work Group's recommendations, which were incorporated into this final report. Commerce will collaborate with the Office of Equity and the Governor's Office on Indian Affairs on next steps, including the overall implementation and public education around the Work Group's recommendations.

Process

Recruitment began in the summer of 2021. The Work Group met five times from October 2021 to June 2022. These meetings were professionally facilitated and structured to allow for a baseline understanding of the issue, robust discussions of the barriers and recommendations, expert perspectives, and small group discussions. All meeting materials and agendas, including recorded presentations, were posted online on the Department of Commerce Homeownership Disparities Workgroup website.

Between the five Work Group meetings, each member met with the facilitation consultants one-on-one to share their perspectives on the project process, meetings, and the barriers and recommendations presented. During these conversations, Work Group members were encouraged to candidly express their thoughts and ask questions to ensure that group discussions addressed the most important issues. These meetings were also used to prioritize and gauge consensus about the top issues and key recommendations. The process was designed to achieve unanimous consent when possible (see Figure 3).

Figure 3. Homeownership Disparities Work Group meeting process



External Stakeholder Engagement

The project consulting team also engaged with external stakeholders via interviews and focus groups to better understand the barriers and learn about any affordable homeownership and/or BIPOC homeownership practices working elsewhere.

The focus groups centered people with lived experiences navigating the homeownership journey. Three focus groups were held between October 2021 and March 2022 with current and prospective homeowners of color. They shared the barriers they faced in accessing homeownership and discussed the programs and services most helpful in purchasing their homes. Commerce carved out funding within the project to compensate focus group participants for sharing their perspectives and experiences.

Definition of BIPOC

Other definitions relating to housing and affordability are in Appendix A: Housing Definitions.

The legislative requirement directed the Work Group to specifically study barriers to homeownership for "Black, Indigenous, and people of color." Often shortened to "BIPOC," the recently created and now widely used acronym is an attempt to be inclusive of all minoritized races and ethnicities (all nonwhite identified people) while highlighting the unique circumstances of Black Americans (many of whose ancestors were enslaved and brought forcibly to the United States by European settlers), Black immigrants (particularly from the Caribbean and Latin America, who are also likely descendants of slaves), and Indigenous Americans (who experienced genocide, had their land taken, and were forcibly moved to reservations).

These and ongoing racist and discriminatory actions and practices resulted in poorer outcomes in health, education, income, and other social equity indicators for these two groups compared to other communities of color who migrated to the United States, though discrimination against all nonwhite groups has resulted in poorer outcomes on a range of social equity indicators compared to white communities. Using "BIPOC" is also an effort to decenter whiteness in language (in contrast to terms such as "nonwhite," which places whiteness at the center of the definition instead of communities of color).

There are also critiques of BIPOC, including that it flattens the differences among groups by lumping them together and is more commonly used and adopted by whites than communities of color themselves. Asians, Latinos/Hispanics, and other Americans of color also wonder where/if they fit into this language.

For the purposes of this project, BIPOC includes Black, Indigenous, Hispanic/Latino, Asian, and any other minoritized group that does not identify as white or within the other categories. When possible, the unique circumstances of each group are named to account for their differences and unique barriers to homeownership. The Work Group recognizes that groups are heterogenous within themselves and seeks to uncover the similarities and differences that prove useful for recommendations. We use the term "people of color" interchangeably with BIPOC in this report.

This study used census and other large data sets, which necessitated relying on the racial categories available when the data was collected. While census data has changed over time, the data used in this report largely follow these categories:

- **White.** A person having origins in any of the original peoples of Europe, the Middle East, or North Africa. It includes people who indicate their race as

"white" or report entries such as Irish, German, Italian, Lebanese, Arab, Moroccan, or Caucasian.

- **Black or African American.** A person having origins in any of the Black racial groups of Africa. It includes people who indicate their race as "Black or African American" or report entries such as Kenyan, Nigerian, or Haitian.
- **American Indian and Alaska Native.** A person having origins in any of the original peoples of North and South America (including Central America) and who maintains tribal affiliation or community attachment. This includes people who indicate their race as "American Indian or Alaska Native" or report entries such as Navajo, Blackfeet, Inupiat, Yup'ik, Central American Indian groups, or South American Indian groups.
- **Asian.** A person having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent, including, for example, Cambodia, China, India, Japan, Korea, Malaysia, Pakistan, Philippines, Thailand, and Vietnam. This includes people who reported detailed Asian responses such as "Asian Indian," "Chinese," "Filipino," "Korean," "Japanese," "Vietnamese," or "Other Asian," or provide other detailed Asian responses.
- **Native Hawaiian and Other Pacific Islander.** A person having origins in any of the original peoples of Hawaii, Guam, Samoa, or other Pacific Islands. It includes people who reported their race as "Fijian," "Guamanian or Chamorro," "Marshallese," "Native Hawaiian," "Samoan," "Tongan," or "Other Pacific Islander," or provide other detailed Pacific Islander responses.
- **Two or more races.** People can identify with two or more races by checking two or more race boxes, by providing multiple responses, or by some combination of checkboxes and other responses. For data product purposes, "Two or More Races" refers to combinations of two or more of the following race categories: "white," "Black or African American," "American Indian or Alaska Native," "Asian," "Native Hawaiian or Other Pacific Islander," or "Some Other Race."

There is an effort to create a new census category for people of Middle Eastern or North African descent (known as "MENA"). However, there is some disagreement about whether this should be a "race" or "ethnic" category, and it was not included in the 2020 census.[9]

From there, ethnicity is identified as "Hispanic or Latino" and "Not Hispanic or Latino." For some of the charts in this study, "white, Hispanic or Latino" is simply labeled "Hispanic." While the Census does delineate between "Asian" and "Native Hawaiian and Other Pacific Islander," many other data sets combine these into a larger "Asian" category or sometimes include Native Hawaiians in the same category as other Native Americans as "American Indian, Alaska Natives."

BIPOC Households in Washington

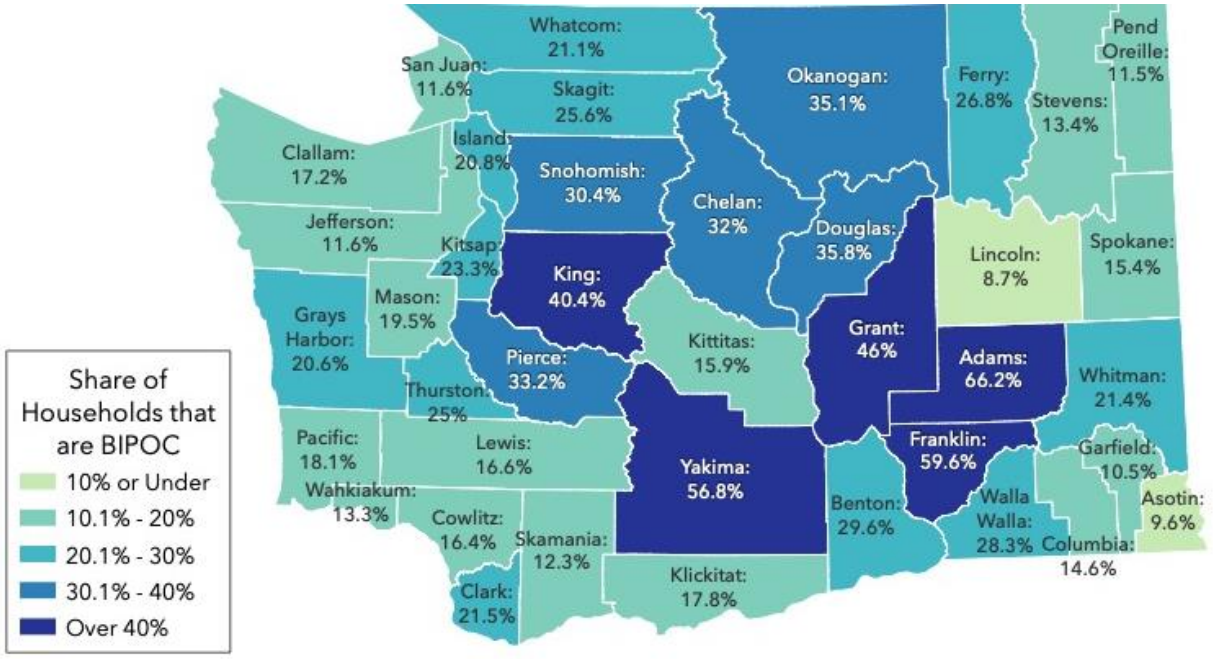
Washington is a predominantly white state. Evaluating 2019 head of householder data on race and ethnicity from the US Census Bureau, we find that:

- 74.3% of households identified as non-Hispanic white
- 8.7% identified as Hispanic
- 8.7% identified as either non-Hispanic Asian or non-Hispanic Native Hawaiian and Pacific Islander
- 3.7% identified as non-Hispanic Black or African American
- 1% identified as non-Hispanic American Indian or Alaskan Native

Among BIPOC households in Washington, Hispanic and non-Hispanic Asian or non-Hispanic Native Hawaiian and Pacific Islanders comprise the largest share, accounting for 17.4% of total households (combined).

Using the definition above, the BIPOC population in Washington accounts for 33.0% of the total population, or 25.7% of households. Using the most recently available data from the US Department of Housing and Urban Development (HUD) Comprehensive Housing Affordability Strategy (CHAS) data set, we find that the prevalence of BIPOC households varies dramatically across the state, ranging from 8.7% of households in Lincoln County to 66.2% of households in Adams County, as shown in Figure 4. Aside from King County, the counties with the highest shares of BIPOC households have small total populations and are generally agricultural areas.

Figure 4. Prevalence of BIPOC Households Varies Across Washington
Source: U.S. Department of Housing and Urban Development (HUD) Comprehensive Housing Affordability Strategy (CHAS), 2014-2018

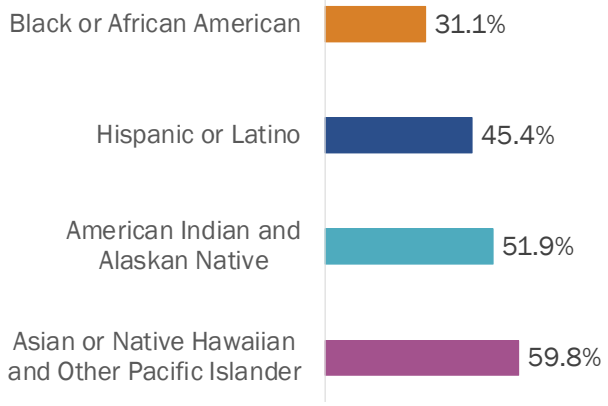


Chapter 1. The State of BIPOC Homeownership in Washington

In 2019, BIPOC households in Washington had a homeownership rate of 49%, compared to 68% for non-Hispanic white households, or a gap of 19 percentage points. This gap varies across races and ethnicities, as shown in Figure 5. The gap is particularly stark for households who identify as Black or African American: in Washington, the homeownership rate for this population is 31.1%, well below the 42.6% national average homeownership rate for Black or African Americans and less than half of the non-Hispanic white homeownership rate.

Figure 5. Washington Homeownership Rate by Race/Ethnicity, 2019

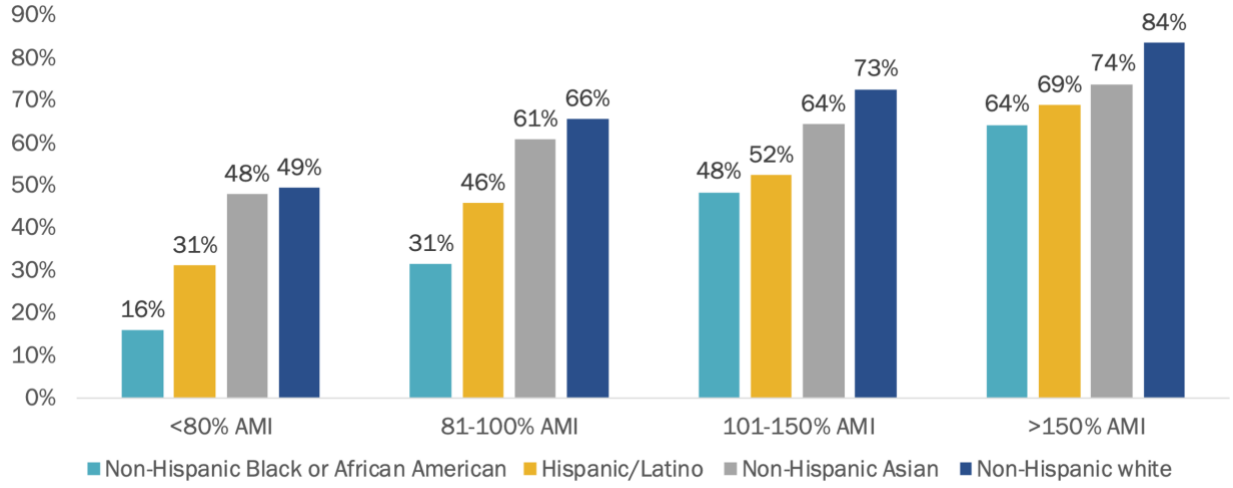
Source: U.S. Census Bureau ACS 1-year, 2019; races are of any ethnicity; races are based on the head of household.



The homeownership gap by race also persists across income levels (see Figure 6). The gap between non-Hispanic white and non-Hispanic Black or African American households is steeper at lower income levels (35 percentage points for households earning between 80 and 100% of statewide area median income [AMI] and 33 percentage points for households earning less than 80% of AMI). But importantly, the gap persists for BIPOC households as incomes rise: the gap between non-Hispanic Black and non-Hispanic white households earning more than 150% of AMI is still 20 percentage points.

Figure 6. BIPOC Homeownership Rates by Income, Washington, 2019

Source: U.S. Census Bureau ACS 1-year, 2019



Wealth and Homeownership

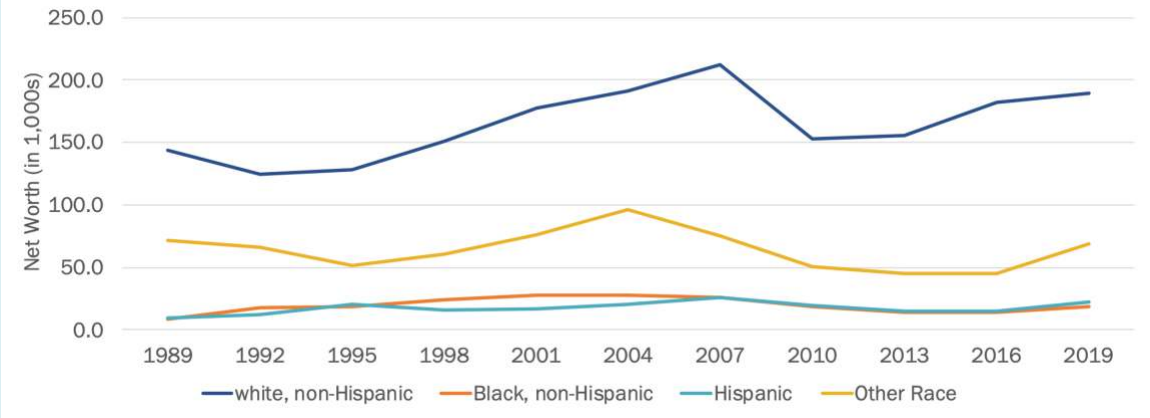
We know that assets and wealth are more important than income in access to homeownership. The same income can support a $2,000 rent payment or a $2,000 mortgage payment. But typically, access to a mortgage requires initial wealth to start (a down payment). As homeownership is the primary way most households accumulate wealth, and some measure of wealth is necessary to become a homeowner, this becomes a cyclical issue locking households out of both homeownership and the opportunity to build generational wealth.

Publicly available data on household wealth and asset ownership are limited and do not allow for examining wealth and assets by race and ethnicity at the state level, only at the national level. We know that nationally, net worth (total household assets less liabilities) is and has historically been vastly larger for non-Hispanic white households compared to Hispanic and non-Hispanic Black households. Data from the Federal Reserve demonstrate that the 2019 national average net worth for non-Hispanic white households ($189,000) was more than 10 times that of non-Hispanic Black households ($18,200) and more than eight times that of Hispanic households ($22,000).

A larger discussion of the financial barriers to homeownership, including a discussion of who is likely to inherit wealth, is found in Chapter 2. Financial Barriers to Acquiring and Sustaining Homeownership for BIPOC Households and Appendix B. Literature Review of Barriers to BIPOC Homeownership.

Figure 7. Net Worth for Selected Races and Ethnicities, 1989-2019

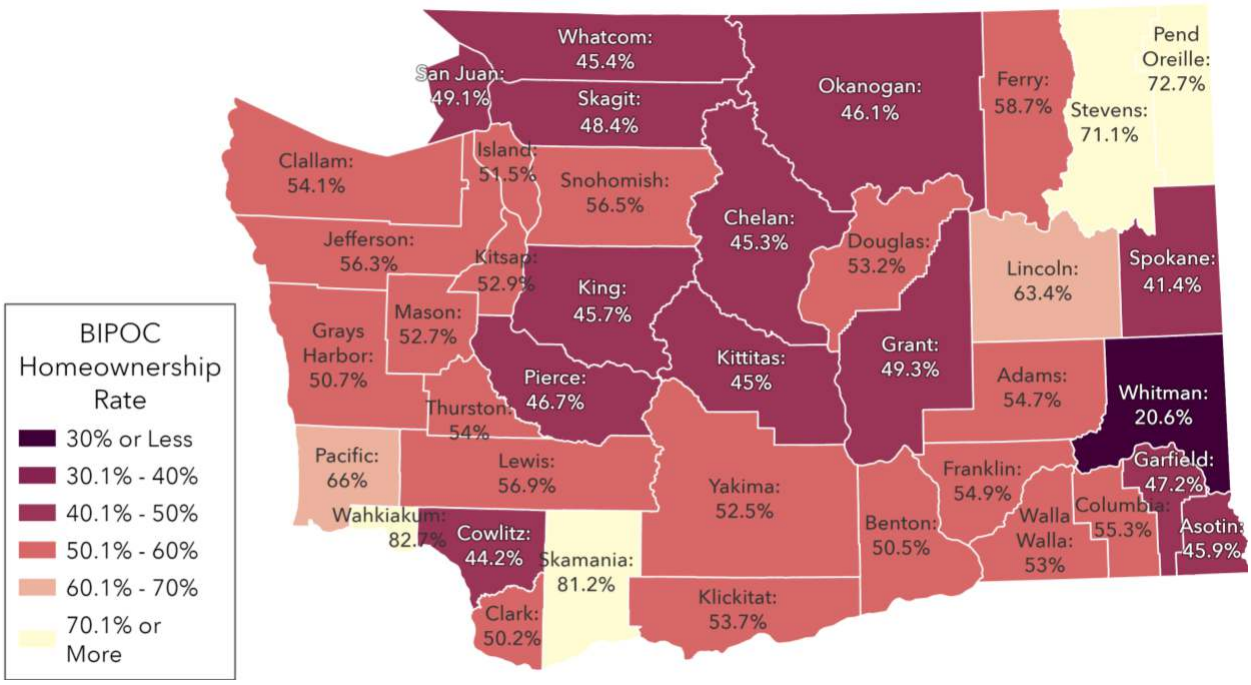
Source: U.S. Federal Reserve Survey of Consumer Finances, 1989-2019
Note: Additional race and ethnic categories are not available. The "other race" group includes households identifying as Asian, American Indian, Alaska Native, Native Hawaiian, Pacific Islander, or another race.



As these figures demonstrate, calculating the BIPOC homeownership gap obscures differences across races and ethnicities. When the data allows, we disaggregate it to display these differences, but small counts of some racial and ethnic minorities in rural areas make this difficult.

The BIPOC homeownership rate varies geographically across counties (see Figure 8).

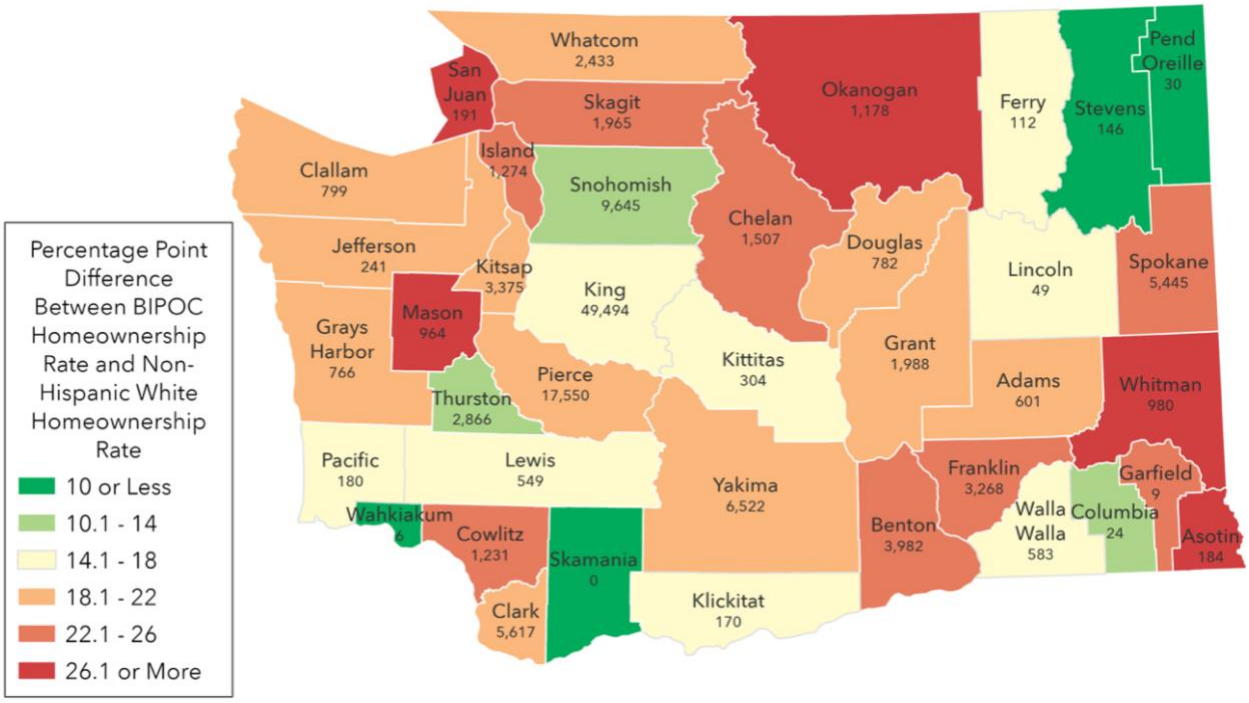
Figure 8. BIPOC Homeownership Rate by County, Washington, 2019
Source: U.S. Census Bureau ACS 1-year, 2019



Knowing that the prevalence of BIPOC households and housing markets both vary across the state, Figure 9 shows counties with the largest disparities in BIPOC homeownership. This map displays the percentage point differences between the share of BIPOC households in an area and the share of homeowners who are BIPOC there. For example, in King County, the share of BIPOC homeowners is 13.7 percentage points lower than the share of BIPOC households. This demonstrates that BIPOC households are disproportionately not homeowners. No county has a disproportionately large share of BIPOC homeowners, but some get close (indicated by the lightest shade).

Figure 9. "Missing" BIPOC Homeowners in Washington, 2019

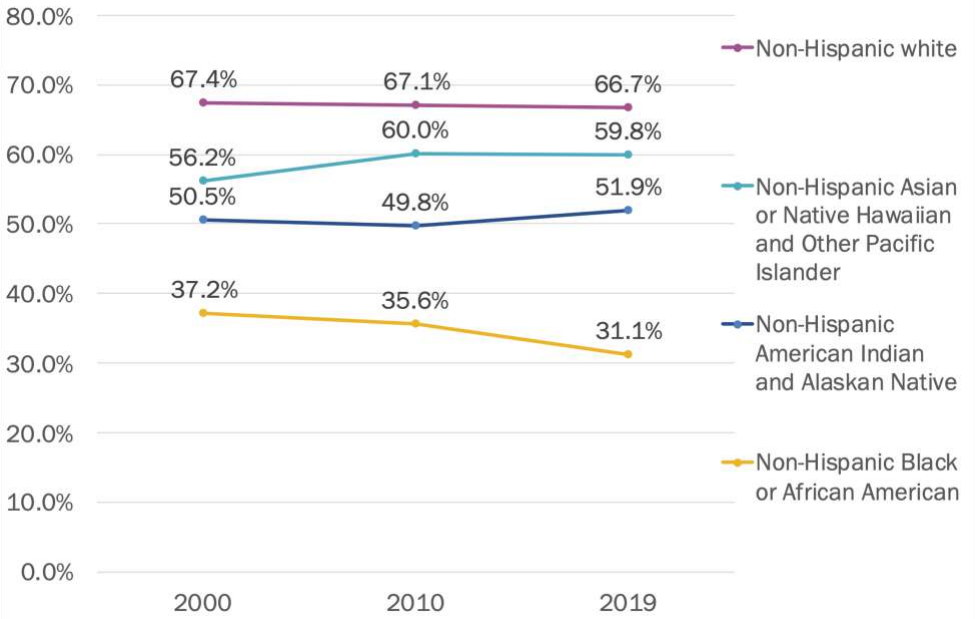
Source: U.S. Census Bureau ACS 1-year, 2019. Note: The data in each county represent the number of BIPOC households who would need to become homeowners for that county's BIPOC homeownership rate to equal the homeownership rate for non-Hispanic white households.



Unfortunately, while statewide homeownership rates for white, Asian, and American Indian or Native American households have remained steady, Black homeownership rates have declined over time. This trend mirrors what is happening nationally, with the Black-white homeownership gap at its highest in 50 years.[10]

Figure 10. Change in Statewide Homeownership Rates by Race, 2000-2019

Source: U.S. Census Bureau Decennial Census (2000, 2010) and ACS 1-year (2019), data not available by ethnicity.



If Washington closed the homeownership gap between white and BIPOC households, more than 143,000 additional BIPOC households would need to become homeowners.[iv] This is a massive challenge, given the scale of the issue, the lack of affordable homeownership options, the inadequacy of existing funding, and the systemic barriers that have plagued access to housing for generations and continue to affect BIPOC households' financial opportunities.

Historical Context of Racist Housing Policies in Washington

Like all states in America, Washington has a complicated history of racism in access to land and housing. From white colonialism in the 1800s to the present day, communities of color have been oppressed by discrimination, racist laws and policies, displacement, and less access to opportunities. White residents have been prioritized in land and housing access and received financial subsidies for homeownership. Over the past 100 years, local, state, and national policies and practices, such as exclusionary zoning, racially restrictive covenants, redlining, urban renewal, and displacement have created an intersecting web of barriers that limited access to homeownership for Black, Indigenous, and other people of color.

Zoning. While there are good reasons for zoning, such as keeping noise and pollutants away from neighborhoods, some zoning laws were explicitly used to segregate and discriminate against people of color. Exclusionary zoning laws restrict the types of homes that can be built in certain areas, such as imposing minimum lot or square footage requirements, prohibitions on multifamily homes, or height limits, which prevent more affordable multifamily units from being built (which have historically housed more racial minorities).[11] Conversely, rezoning residential areas can effectively destroy communities, as happened to many of Seattle's Black and Chinese neighborhoods in its 1923 zoning laws.[12]

Racially restrictive covenants. In addition to zoning, racially restrictive covenants used "white-only" clauses in house deeds to prohibit people of color from owning or occupying homes.[13] These restrictions resulted in segregated residential neighborhoods throughout the state and restricted people of color from homeownership. Racially restrictive covenants were still in effect and were

[iv] We apply the statewide non-Hispanic white homeownership rate to the total number of BIPOC households in the state and subtract the current number of BIPOC homeowners. This approximates the number of "missing BIPOC homeowners," or the number of BIPOC households who would need to become homeowners to close the homeownership gap.

in fact bolstered when the US Congress approved the Home Owners Loan Corporation (HOLC) in 1933 and the 1934 National Housing Act created the US Federal Housing Administration (FHA). These two programs aimed to address problems in housing that had, until this time, been unaffordable to most Americans. By creating loan products that allowed for longer pay-off terms and offering loan insurance, many more people were able to afford a home with reasonable monthly payments. However, these policies perpetuated racially restrictive covenants and segregation.

G.I. Bill. In 1944, the Servicemen's Readjustment Act, better known as the G.I. Bill, was passed to ensure additional resources to returning World War II veterans to aid in their assimilation back into civilian life. These federal resources took many forms, including low-interest mortgages, unemployment benefits, educational grants and stipends, and medical care.[14] However, while the Act was "color-blind" and refrained from explicitly excluding African Americans, the racist fears of Black advancement, discriminatory practices, intimidation tactics (such as targeted violence and lynching), and overt refusal to incorporate Black Americans into the benefits of the G.I. Bill resulted in the exclusion of most Black veterans from ample postwar homeownership, employment, and educational opportunities.[15] While the G.I Bill ended in 1956, the racist and unequitable distribution of the Act's resources exacerbated the widening wealth disparity gap between Black and white Americans. Even today, it continues to cement the privilege of educational and generational wealth of many white Americans.[16]

Redlining. Redlining was a government-sponsored practice where the HOLC specified whether neighborhoods were appropriate for investment based on the incomes and races of residents. Areas with larger communities of color were marked in red on physical maps as "undesirable" for investment. For example, the Central District of Seattle — a historically Black neighborhood — was identified as hazardous on the map, and the explanation was one simple sentence: "This is the Negro area of Seattle."[17] A larger section just south of that location, next to what is now the Chinatown-International District, was also marked as hazardous, with the explanation that the district had "various mixed nationalities" that "are occupied by tenants in a vast majority."[18]

Urban Renewal. In 1957, the Washington State Legislature adopted the Urban Renewal Law, which allowed jurisdictions to deem places as "blighted" and then use federal dollars to improve the blighted areas. Because of the lack of investment in neighborhoods of color, those areas were more likely to be marked

as blighted and slated for renewal. Urban renewal projects came at a cost, as existing residents were often displaced due to gentrification caused by increased property values from the new investments.[19]

Consequences Resulting from Lower Homeownership

The gaps in homeownership rates between white and BIPOC households contribute to further financial and housing insecurity for BIPOC households, as homeownership is considered to be the primary way most households build wealth in the United States.[20] The long-term profitability of homeownership is more favorable than many other financial investments, even when factoring in periods of home price depreciation.

When BIPOC households are unable to accumulate wealth through homeownership, it not only affects their ability to be financially secure but can also leave them increasingly vulnerable to displacement and gentrification.[21] Renters who live in gentrified areas may experience increases in rental pricing as newer housing and businesses change the area's environment, often attracting younger, higher-educated, higher-income, and/or whiter households. When household incomes do not keep pace with the rising cost of rent, many people are forced to move in search of affordable housing.

The longest-lasting effect of lower homeownership rates on BIPOC households is the detrimental impact on intergenerational wealth. Research has shown that in addition to a young adult's household income, the homeownership status of their parents is also highly correlated with their ability to obtain homeownership, suggesting that "children of homeowners have a higher homeownership rate than those with parents who are renters."[22] Lower intergenerational homeownership rates among BIPOC households can therefore become cyclical, reinforcing the cycle of racial wealth inequity.

Chapter 2. Financial Barriers to Acquiring and Sustaining Homeownership for BIPOC Households

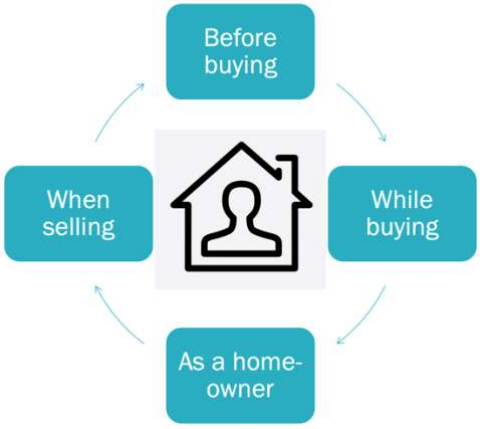
One of the priority barriers to BIPOC homeownership identified by the Work Group was expanding the types of assistance that potential BIPOC homeowners can access. This chapter summarizes the research describing the numerous financial and structural barriers that BIPOC households face on their homeownership journey. A complete literature review can be found in Appendix B. Literature Review of Barriers to BIPOC Homeownership.

Section c-iii of the proviso specifically directed the Work Group to review barriers preventing BIPOC households from accessing credit and loans through traditional channels.

Even with an optimal supply of homeownership units available for purchase (which is not the case in Washington, as outlined in Chapter 3), numerous barriers prevent households of color from obtaining mortgages and favorable lending terms at the same rate as white households. These factors stem from structural and systemic issues relating to racism and discrimination, historic policies prohibiting land and home ownership, and explicit discriminatory practices from some players in the finance and lending industries that influenced the economic outcomes for these households.

Before Buying a Home

Many of the elements assessed during the home buying processes, like credit scores, debt, and the ability to make a down payment, are inextricably linked to income. Centuries of racism have resulted in BIPOC households being disproportionately concentrated in lower-wage occupations and having below-average educational attainment, resulting in less intergenerational wealth. These factors have far reaching impacts on BIPOC households' ability to purchase a home, which, in turn, limits their ability to create intergenerational wealth.



The traditional criteria used by institutional actors (both public and private) to determine mortgage and borrowing eligibility are more challenging for BIPOC households because of their disproportionately lower incomes, limited access to banking, lower credit scores, and higher debt-to-income ratios—all of which, research has demonstrated, are the result of systemic and structural racism. Some of the barriers facing would-be BIPOC homeowners noted in the literature review in Appendix B. include:

- Income is important for homeownership and is highly correlated with educational attainment. Disparities exist in access to education among racial and ethnic groups that mirror homeownership disparities. [23]
- Debt-to-income ratios (DTIs) are the most common reason Black applicants are denied loans.[24] Black students are more likely than white students to receive unsubsidized loans for education, which increases the amount of debt that Black college graduates must take on to pursue higher education, which follows them into homeownership. This is in part because students of color often have less wealth to draw on than their white counterparts, making them more likely to turn to student loans to cover rising college costs. [25]
- Disparities in inherited wealth limit the ability for BIPOC households to save for down payments.[26] The Federal Reserve found that "white families are both more likely to have received an inheritance and are also more likely to expect to receive an inheritance: about 17% of white families expect an inheritance, compared to 6% of Black families, 4% of Hispanic families, and 15% of other families. Similarly, conditional upon expecting to receive an inheritance in the future, white families expect to receive relatively larger inheritances."[27] Given that income and wealth are closely linked and that BIPOC households have lower incomes on average than non-Hispanic white households, researchers estimate that it may take up to 25 years for a typical Hispanic household to save for a 10% down payment and nearly 30 years for a typical African American household.[28] With rising rents outpacing incomes, many low-income BIPOC renters will struggle to save for a down payment and may be disproportionately likely to have little to no inheritance.
- Lack of credit and poor credit present as barriers to accessing a lower interest rate loan for many prospective buyers of color. Researchers highlight how "decades of discrimination in employment, lending policies, debt collection, and criminal prosecution have left generations of Black families vulnerable to financial insecurity and negatively impacted median credit scores." [29] In the long term, low credit scores can limit access to activities that can create income and wealth, such as advanced education, entrepreneurship, or homeownership.
- Because credit scores rely on more traditional loans, such as mortgages and credit cards, Black people are disproportionately more likely to have thin credit histories or no credit scores. "This is a key point because in the housing context, we know that most Black households are renters and that rental payments are largely unreported to traditional credit bureaus. A Black household may not own a home and pays only for rent, utilities, cell phones, and similar recurring expenses, but these transactions are not reported to credit bureaus in any positive way," limiting their impact on credit scores.[30] There are currently discussions at the federal level that would change reporting requirements to

include rental and utility payments to the credit bureaus, which could bring more people onto the credit spectrum.[31]

- Despite the disparities in credit scores among groups, the Urban Institute found that Black borrowers were less likely to have a traditional mortgage than white borrowers with the same credit score, revealing that Black borrowers face additional barriers to accessing homeownership on top of having a lower credit score.[32]
- Black and Latino or Hispanic people are more likely than white people to depend on high-interest financial services like check cashing counters and payday lenders because there are fewer banks in Black and Latino or Hispanic neighborhoods.[33] And "because Black people are more likely to have lower credit scores, they are more likely to be unbanked or underbanked, causing them to pay higher service fees to receive financial services and making them more likely to depend on alternative financial institutions."[34]
- Some Muslim (Black and MENA) communities rely on harder-to-find, nontraditional loaning and mortgage alternatives (or "halal mortgages") for noninterest home purchasing plans, as their Islamic faith prohibits interest-bearing loans.[35]

While Buying a Home

After qualifying for a mortgage, many people of color continue to face discrimination through the lending process. Studies evaluating lending practices that control for numerous variables have shown that households of color receive a disproportionate share of subprime loans and are denied loans more often, even when controlling for various financial characteristics (such as income, debt-to-income ratios, and credit scores).[36, 37]

Researchers have also found that predatory lending products are marketed more frequently to BIPOC households. These types of products include loans with high fees, high interest rates, or terms like "pre-payment penalties, interest-only periods, negative amortization, balloon payments, or terms longer than 30 years."[38] These riskier financial products make homeownership less secure and more expensive for BIPOC households compared to white households. This higher risk and higher cost may also influence some BIPOC households' interest and willingness to become homeowners.

Some of the barriers facing BIPOC homeowners noted in the literature review in Appendix B. include:

- Black and Hispanic applicants are often charged higher interest rates than white borrowers (on average) after being approved for a mortgage, meaning they must

devote more of their incomes toward housing costs, even when the debt-to-income ratio is not a barrier.[39]

- Black and Latino households are more likely than white households to depend on high-interest financial services like check cashing counters and payday lenders because there are fewer banks in Black and Latino neighborhoods, which results in higher payments and reduced wealth generation for those households.[40]
- Hispanic and Black households were twice as likely to use FHA and Veterans Administration loans than white households in 2010.[41] While these loans offer favorable terms for borrowers, they are less likely to be accepted by sellers, especially in highly competitive markets.[42]
- Households of color are also more likely to experience predatory and discriminatory lending practices than white households. Researchers have found that "even when accounting for debt-to-income and combined loan-to-value ratios in addition to other financial characteristics, lenders were still more likely to deny people of color home loans than white applicants."[43]

Sustaining Homeownership

Research shows that buying a home at a younger age has some effect on overall wealth generation from the home.[45] Black homeowners disproportionately buy homes later in life and sell earlier than white households, and thus experience less wealth accumulation over time.[46, 47] However, the age gap in purchasing a home does not fully explain the housing wealth gap between Black and white homeowners. Researchers have found that Black households buying at the same age as white households still saw "substantially lower housing wealth than white households" by age 60 or 61.[48]

Researchers at the Urban Institute found that "87% of white homeowners bought their first homes before age 35, compared with only 53% of Black homeowners. Not only are Black households less likely to buy their homes in young adulthood, 18% never own a home before age 60 or 61." [44]

Some of the barriers facing BIPOC homeowners noted in the literature review in Appendix B. include:

- Black households, on average, buy their homes later in life than white households. [49, 50] This disparity results from all the barriers to purchasing a home: lower average incomes, higher rates of debt, lower access to traditional banking services, higher interest rates, and predatory lending, which research has shown are the result of systemic and structural racism.
- Systemic factors also make Black and Hispanic/Latino homeowners less likely to sustain homeownership than white homeowners.[51] "Black households who sustained their homeownership had more than $23,500 higher housing wealth at

ages 60 and 61 than Black households who moved from owning to renting during their lives."[52]

- Poor housing conditions and fewer options for housing, combined with policymakers directing amenities and resources away from communities of color, have reduced property values and increased the risk of foreclosure in communities of color, which in turn diminished returns on homeownership.[53]

When Selling a Home

Discrimination also follows many BIPOC homeowners into the appraisal and selling process, further reducing their ability to generate wealth from their homes to pass onto future generations or other family members. Research demonstrates that appraisers, most of whom are white (97%)[54], sometimes value BIPOC-owned homes lower than those owned by white families, even homes of similar size, location, and amenities. Several recent families' experiences showed that replacing photos of their Black family with photos of white friends resulted in a second appraisal being much higher, with no other changes to the house.[55, 56]

A recent Redfin analysis of home value estimates found that the average home in a primarily Black neighborhood was worth $46,000 less than a comparable home in a primarily white neighborhood, based on more than 7 million homes listed and sold from 2013 through February 2021 nationwide, controlling for factors such as size, condition, neighborhood amenities, and schools.[57] This also affected other people of color: "For appraisals in majority-Latino tracts, 15.4% were valued lower than the contract price. For both Black and Latino areas, the percentage of undervalued appraisals increased as the white population percentage decreased."[58]

Chapter 3. Affordable Homeownership Supply Barriers

The Work Group repeatedly discussed the inadequate supply of affordable homeownership units as a top-priority barrier to overcome to increase the BIPOC homeownership rate in Washington. Absent sufficient options of affordably priced homes to purchase, any other policy change will have a limited impact on improving the BIPOC homeownership rate.

Sections c-i and c-iv of the proviso specifically directed the Work Group to study the creation of homeownership units.

Demand for housing in Washington is outpacing supply, putting upward pressure on home prices. Due to high-input costs — such as land, labor, and materials — projects must maximize square footage and selling prices to balance financially, which limits the production of moderately sized and moderately priced units. Generally, subsidies are needed to bridge the gap between an affordable selling price and what it costs to develop a new unit, but there are too few subsidies available (see Chapter 4. Current State Affordable Homeownership Funding Programs for a discussion on affordable homeownership development subsidies).[v]

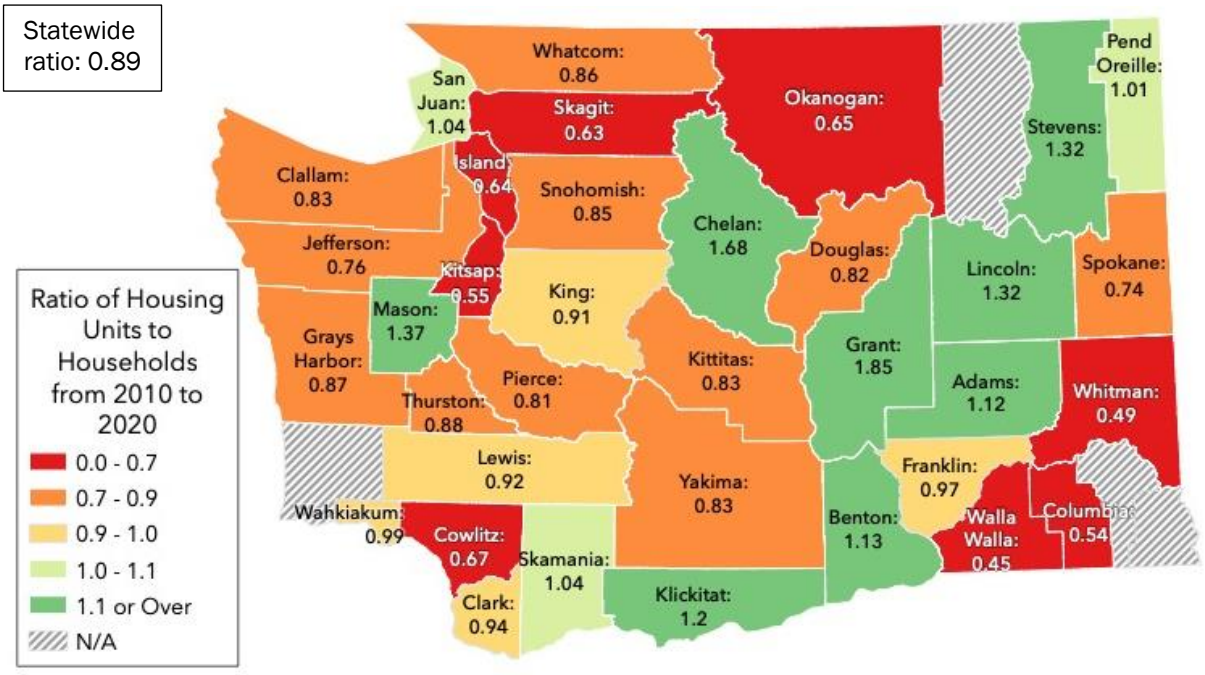
Underproduction of Housing

The United States has underproduced housing units based on demand for decades, and Washington has fared worse than most.[59] Across the state, too few housing units have been built to accommodate the growing state population. From 2000 to 2017, Washington only produced 0.99 units per new household, and from 2010 to 2020, this dropped to only 0.89 units per new household. In many counties, fewer than one housing unit was built for every new household that formed (moved to the county or formed when households split up) from 2010 to 2020 (see Figure 11).

[v] Public funding for new affordable homeownership units increasingly requires a ground lease or deed restriction so that the property remains affordable in the future. These restrictions often have long affordability terms. When the term is 99 years, it is considered "permanently affordable." To remain affordable for future buyers, the amount of equity a homeowner can achieve is limited, hence referring to this model as a "limited equity" or "shared equity" housing unit. For projects funded by the state Housing Trust, the restrictions last for 25 years.

Figure 11. Map of Housing Units to Household Formation, 2010-2020

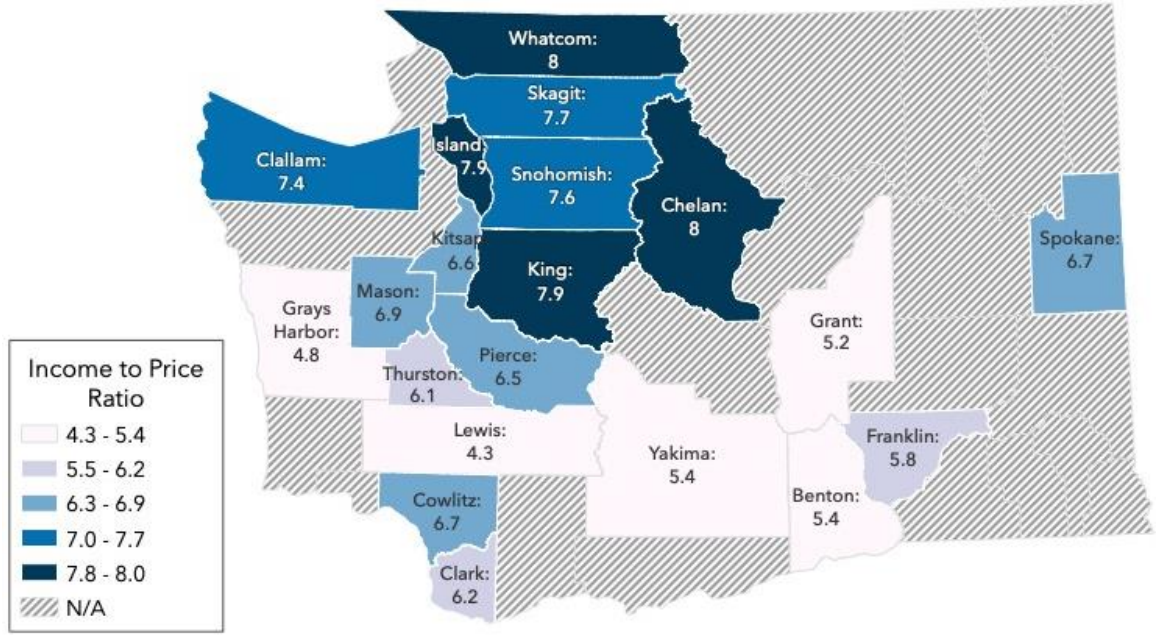
Source: Washington State Office of Financial Management



This underproduction, coupled with the high demand for housing, caused prices to increase dramatically. In many counties in and around Puget Sound, median home prices are more than six times the median household incomes (see Figure 12), making it challenging to find affordably priced homes. High demand and low supply for the few affordable homes that are available make the home buying process very competitive, with homes selling quickly, sight unseen, or for cash.

Figure 12. Map of Price-to-Income Ratios in Washington, 2019-2021

Source: 2019 ACS 1-Year Estimates and 2021 Zillow Home Price Index (not available for all counties)



What are Affordable Homeownership Unit Types?

Some types of housing units are generally considered more affordable, as in lower cost, than newly constructed single-family detached homes. However, there can be wide price differences among these different unit types, so these are not guaranteed to be more affordable or lower cost in all circumstances. Condominiums, for example, can be less expensive than single-family homes in some areas and circumstances, but in other situations, they can be just as expensive, or even more expensive, than newly constructed single-family detached homes.

Typically, aspects of affordable homeownership units can include:

- Physical aspects of the home or its location, such as:
  - Older homes needing rehabilitation
  - Homes in areas with little access to amenities
  - Smaller homes or homes with fewer amenities (new or existing), such as townhomes, duplexes, fourplexes, some condominiums, or modular homes
- Financial aspects, such as:
  - Cooperative housing
  - Limited/shared equity or sweat equity homes

Why are there not enough affordably priced homes in Washington? The Department of Commerce, many local governments, and many researchers across Washington have been studying housing market barriers to production and ways to increase the overall housing supply. The next section provides a short overview of common barriers to the supply of lower-cost units. A more detailed review of the barriers is in Appendix B. It is essential to understand how real estate development works in order to understand supply and construction barriers.

Barriers to Affordable Homeownership Units

Financing. In the housing market, financial requirements and standards determine the minimum amount of return on development that a developer or lender will accept to take on the risk of the project. This means that the rent or sales price of a home needs to offset the development costs and the return requirements of the developer, investor, and financer. Development costs include a range of expenses such as land, materials, construction labor, soft costs (architecture, engineering, financing, insurance), impact fees charged by public jurisdictions, and costs of required design elements (open spaces, parking, setbacks, etc.).

Because affordable homeownership units are intended to be affordable to low-income households, there is a mismatch between the price and the price needed to offset the

cost of development and generate financial returns. This mismatch, or funding gap, is often filled with public funding, grants, low-interest loans, philanthropic dollars, or other types of funding that do not require a return on investment or require a lower return. While some nonprofit organizations do not require a financial return, they still have a funding gap that must be filled.

Development risk. Most development is financed with debt, which means that delays and uncertainty can increase costs via interest payments that accrue on the debt during the project. Therefore, long timelines (such as permitting processes, environmental reviews, neighborhood opposition), risks (such as changing laws, environmental challenges, or lawsuits), and delays (such as material or labor shortages) can all increase costs, thereby driving up prices and reducing supply. High labor and material costs translate to higher sales prices needed to break even, meaning that new construction can be too expensive for many would-be buyers.[60] When a development cannot realize the required rate of return to offset the risk, it will not proceed without a subsidy.

Subsidies. Subsidies for development can help fill the funding gap between the affordable purchase price and the cost of development. Most subsidies have deed restrictions or use covenants that ensure that funds support the intended public benefit for sufficient periods of time. In the homeownership market, these programs increasingly fund "permanent affordable housing," which caps the equity that households can gain on the sale of a home to ensure it remains affordable for the next buyer (see Appendix A. Housing Definitions).

In Washington, the Housing Trust Fund program often receives set-aside appropriations dedicated to affordable homeownership development, but the amount of funding has been insufficient to meet the need.[61] Barriers to increasing the number of affordable homeownership units constructed include "award caps" or per-unit per-project limits on subsidies for developing homeownership units; program-level limits on total funds available to award to developers; some of the program's eligibility requirements; and too little dedicated funding to homeownership.

Chapter 4. Current State Affordable Homeownership Funding Programs explores the Housing Trust Fund program in greater detail.

Incentives. Similar to subsidies, development incentives can also help fill the funding gap between an affordable purchase price and the cost of development. Development incentives help offset the costs of development or ongoing operations to make a project more financially feasible. Like subsidies, development incentives typically have deed restrictions or use covenants that ensure that public funds support the intended use. Development incentives can be financial (like tax exemptions or reduced impact fees), physical (like extra height or density), or fewer parking stalls, which are costly to build and take away from rentable space.

Currently, the RCW 36.70A.540 offers guidance on affordable housing development incentives for jurisdictions to consider. The RCW states that affordable homeownership incentives must serve households with incomes below 80% of the county's median family income (MFI, see Appendix A. Housing Definitions) and that affordability must remain in place for 50 years. A jurisdiction may adopt these incentives and make changes to some of the parameters (such as increasing the income served if the local housing market is not serving a higher-income segment of the population). While nonprofit developers most commonly use the state's affordable homeownership subsidy programs, development incentives are also attractive to market-rate developers.

Nonprofit capacity. The ability to increase the number and capacity of nonprofit and community-based organizations developing affordable homeownership units is also limited due to limited public funding (subsidies). Additionally, these organizations compete for construction labor with higher-priced developments, which can offer more incentives to construction workers.

Zoning and land use. Washington's Growth Management Act requires cities and counties in the most populated areas of the state to manage population growth via comprehensive plans. These policies create urban growth areas that effectively limit the area where cities can grow, thereby restricting the land available for housing and other types of development. Comprehensive plans and buildable land inventories are updated regularly to ensure that cities have appropriate zoning and development capacity (among other characteristics) to accommodate growth. However, in effect, policies that limit developable land can increase prices for housing when demand is high as opposed to unmitigated sprawl.

The Growth Management Act provides a clear framework for housing planning and development and requires local governments to plan on behalf of the whole community. However, in some cases jurisdictions apply and implement land use policies that intentionally or unintentionally restrict access to homeownership for BIPOC communities. Segregation is still propagated through exclusionary zoning polices and regulations, which limit housing production or discourage production of higher-density housing types.[62]

The Washington Legislature has made strides to eliminate zoning barriers to higher-density (missing middle) housing types in recent years, but zoning is largely controlled by local jurisdictions. Zoning considerations at the local level (such as density restrictions, minimum lot sizes, or parking requirements) influence the type of homeownership units that can be built, often limiting the amount of land available for development.[63, 64, 65] A limited supply of developable land can drive up prices when

demand is high and zoned capacity is low, thus putting homeownership out of reach for low and middle-income households.

Real estate investors. The supply of affordable homeownership units is also influenced by buyer competition. Real estate investors have been buying lower-cost homeownership units to rehabilitate and rent or sell at a profit, reducing the overall supply of affordable homeownership units available. In Seattle, for example, real estate data analyzed by the Washington Post shows that in 2021, investors bought roughly 8% of homes for sale, three percentage points more than the 5% purchase rate in 2015.[66] Nationally, investors were much more likely to buy in Black neighborhoods.[67]

These investors, sometimes called "flippers," often have large balance sheets and quick access to financing, allowing them to outcompete traditional buyers, buyers using alternative lending products, and buyers using down payment assistance programs, thereby reducing the supply of affordable homeownership units available for purchase. It is important to note that investors cannot flip homes that have been publicly funded and deed-restricted for long-term affordability.[68]

Chapter 4. State Affordable Homeownership Programs

This chapter evaluates the largest state-funded and state-administered programs that support low-income homeownership. The largest two programs come from Commerce's Housing Trust Fund (HTF) and the Washington State Housing Finance Commission (the "Commission").

Sections c-i and c-ii of the proviso specifically directed the Work Group to evaluate state affordable housing funds and state-funded programs.

Housing Trust Fund (HTF)

The state HTF program funds the creation and preservation of affordable housing opportunities – including multifamily rental housing, shelters, and homeownership units.

HTF Eligibility

Applicants wishing to receive HTF funding must meet eligibility criteria and their projects must meet certain qualifications. Eligible applicants include local governments and Tribal nations, housing authorities, nonprofit housing providers, and community land trusts. Eligible uses include the development or preservation of affordable multifamily rental housing, affordable homeownership units, and emergency shelters, or funding for homeownership down payment assistance and closing costs.

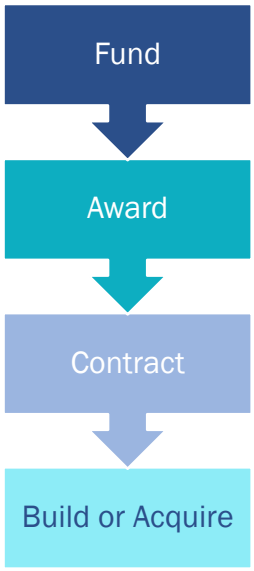
Households living in HTF-funded housing must have incomes less than 80% of the local area median income (AMI, see Appendix A. Housing Definitions). This presents a barrier for middle-income households, which have been priced out of homeownership but make too much income to receive assistance from publicly funded programs. This demonstrates a fundamental challenge to expanding homeownership assistance programs: homeowners must make enough income to support their mortgage payments and other debt obligations but cannot make more than the program eligibility requirements. Publicly funded rental assistance programs do not typically have minimum income requirements.

For homeownership, housing costs must account for less than 38% of the household's total gross income and total household debt cannot exceed 45% of the total household income (see Appendix A. Housing Definitions).

HTF Funding Amounts

Funding is limited and is mainly competitively dispersed through annual funding application rounds called notices of funding availability (NOFAs). The Housing Trust Fund aims to distribute about one-third of funds to King County, one-third of funds to projects in rural areas, and one-third of funds to projects in other urban areas. HTF dollars flow through the following four major milestones:

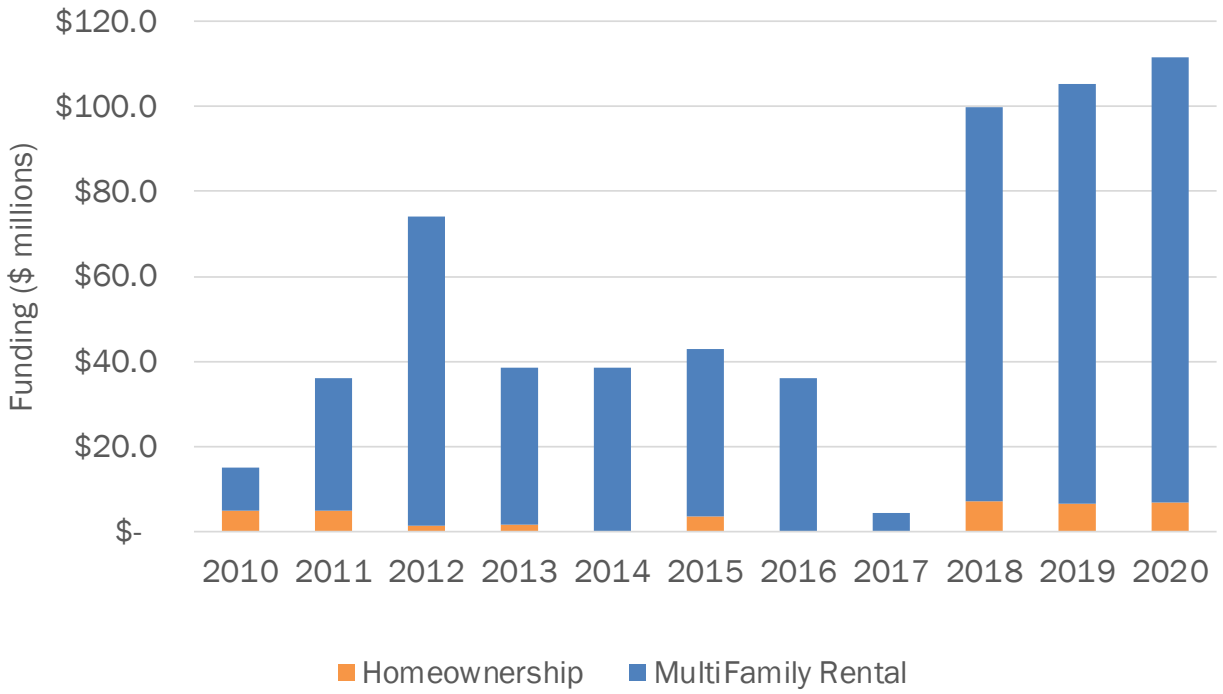
- **Appropriations:** Each year, the legislative process funds the HTF within the capital budget, primarily using state bonds. It can do this through direct appropriations to specific projects, competitive set-asides, and/or by providing competitive, flexible funds. When the Legislature sets aside funds specifically for homeownership, the HTF usually meets or exceeds that amount when making homeownership awards. If the proviso allows for homeownership investments without naming them in a specific set-aside (such as flexible HTF funds), Commerce makes homeownership awards alongside multifamily rental housing in the annual HTF competitive application rounds. In recent years, the majority of the HTF budget included direct appropriations or funds set aside for specific rental or shelter projects (such as homeless shelters, cottages, and multifamily housing through rapid acquisition) with little or no funds dedicated to homeownership.



- **Project awards:** Each year, eligible developers and housing providers apply for HTF funds. Commerce selects homeownership projects to receive funding based on how many applications are received, how much funding is available, and the specific priorities of the Legislature and the agency.
- **Contract:** Once awards are announced, Commerce negotiates HTF contracts with recipients. Sometimes project details change, and it takes time for a contractor to reassemble a viable project. When the Legislature makes direct appropriations, the recipient skips the application process and Commerce proceeds directly to contracting. HTF applicants administering down payment and other homeownership assistance programs can use HTF funding once their contract is executed.
- **Placed in service:** For applicants receiving funding for homeownership, projects begin development and incur acquisition and/or construction costs after the contract is executed. When acquisition/construction finishes, the units are "placed in service" (that is, open to occupants) and the occupant moves in.

Total HTF funding has increased significantly in recent years in response to the ongoing homelessness and affordable housing crisis across the state. However, an analysis of HTF data demonstrates that only a small share of total HTF funding goes toward homeownership projects (see Figure 13). In the past 10 years, the highest share of funding directed toward homeownership was 8% in 2015 (2010 saw 32% of the total, but it was a very small total).

Figure 13. HTF Funding Annually by Housing Type ($M), 2010-2020
Source: Washington State Department of Commerce Housing Trust Fund, 2010-2021



In order to distribute funds more fairly and equitably across the state and among fund recipients, HTF has policies that limit homeownership *applicants* to receiving no more than $3 million per biennium. Homeownership *projects* are limited to $1.5 million in HTF funding per cycle. While the HTF does not have firm per-unit limits, it seeks to leverage other available resources and, on average, funds roughly $50,000-$60,000 per home. This enables the state to produce more affordable homes but requires developers and nonprofit housing providers to work with prospective homeowners and piece together multiple funding sources to support the cost of the property. These per-unit and per-project limits are insufficient compared to current development costs.

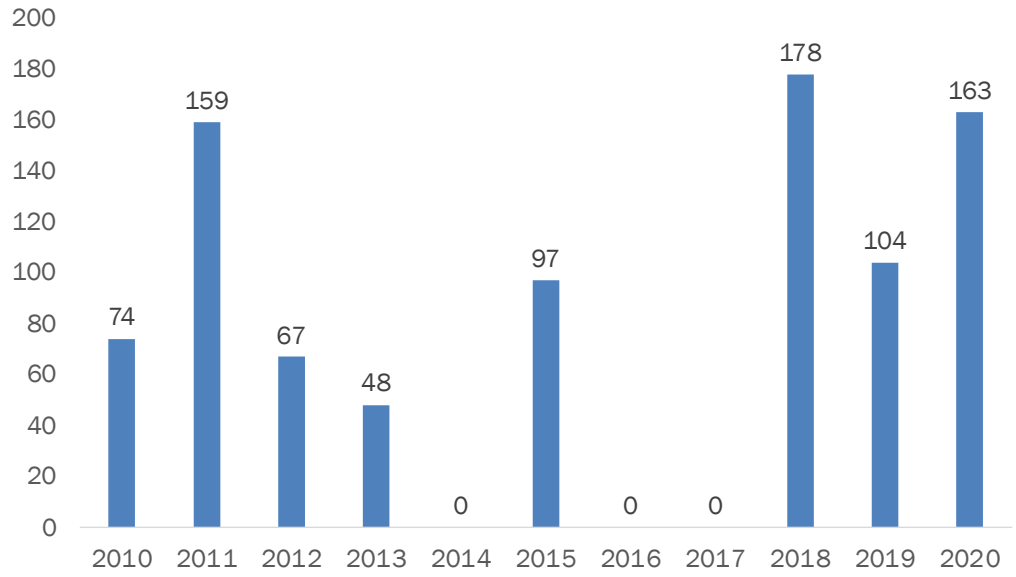
HTF Homeownership Programs

HTF funds homeownership through grants for new construction, acquisition, and rehabilitation, or by providing down payment assistance and funding closing costs. An analysis of 701 HTF homeownership contracts awarded from 2010 to 2020 (2,437 households) showed that down payment assistance is the most common contract type (which includes direct subsidies to community land trusts to reduce the purchase price of a home). In this HTF sample, 63% of contracts were for down payment assistance, 24% were for new construction (unit creation), 8% were for rehabilitation or resale, and 5% were for acquisition funds.

Unit Creation

From 2010 to 2020, HTF funded 890 homeownership units for 36 applicants for approximately $37 million. This ranged from zero units in some years to 178 units in 2018 (see Figure 14). According to the HTF data, it takes about 2.4 years for a project to progress from receiving a funding award to being placed in service (with a range of same year to seven years).

Figure 14. HTF Homeownership Units Funded, 2010-2020
Source: Washington State Department of Commerce Housing Trust Fund, 2010-2020



Is HTF Homeownership Funding Reaching BIPOC Households?

To answer the question of whether HTF funding is reaching BIPOC households, Commerce requested demographic data from its funding recipients. It received information on 701 contracts awarded from 2010 to 2020 for 2,437 households. As this was a specific request for this Work Group, these 701 contracts represent only a sample of total HTF contracts made between 2010 and 2020.

As of 2019, Commerce requires funding recipients to report standardized demographic data of residents in their annual reporting, allowing Commerce to aggregate and report demographic trends. Required demographic data includes (but is not limited to):

- Household size
- Race
- Ethnicity
- Income
- First-time homebuyer status
- Cash contribution

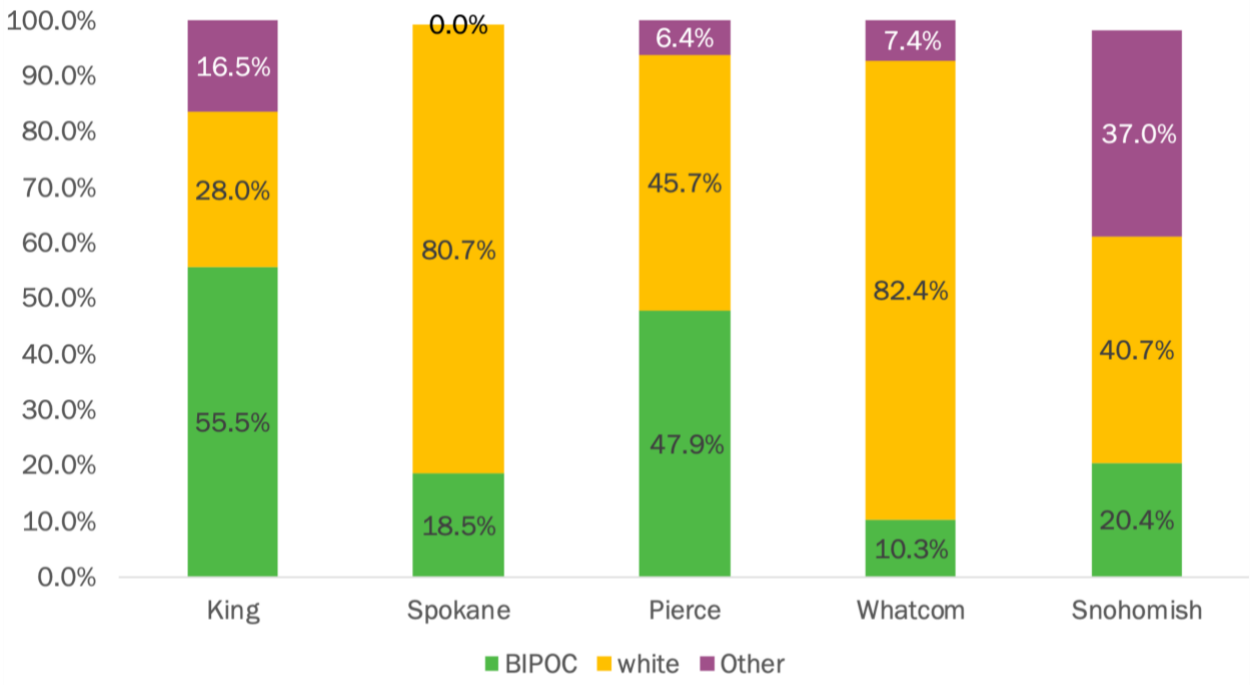
For the top five contracting counties—King, Spokane, Pierce, Whatcom, and Snohomish—the HTF reached a higher share of BIPOC households in King County and Pierce County compared to the BIPOC share of the total population (see Figure 15).

Specifically in the sample during this period:

- In King County, 55.5% of HTF recipients were BIPOC households, whereas BIPOC households accounted for 40.4% of total households.
- In Pierce County, 47.9% of HTF recipients were BIPOC households, whereas BIPOC accounted for 33.2% of total households.

Figure 15. Percent of Households Assisted by Race, Top Five Contracting Counties, 2010-2020

Source: Washington State Department of Commerce Housing Trust Fund, 2010-2020



Other State Programs Influencing Homeownership

Washington State Housing Finance Commission ("the Commission")

Given the relatively small size of the Housing Trust Fund, program data from the Commission were also analyzed. The Commission is the state's housing finance agency, responsible for administering the state's allocation of federal Low-Income Housing Tax Credits (LIHTCs). It also administers several mortgage lending and down payment assistance programs and administers counseling grants to a statewide network of housing counseling agencies.

The analysis included 40,320 loans made from 2017 to 2021 from the Home Advantage Program and the House Key Opportunity Program, both of which provide loans and down payment assistance to low to moderate-income borrowers. The Home Advantage Program is larger and accounted for about 93% of the loans in the analysis. Relevant details of these programs and eligibility requirements are listed below.

Home Advantage Program

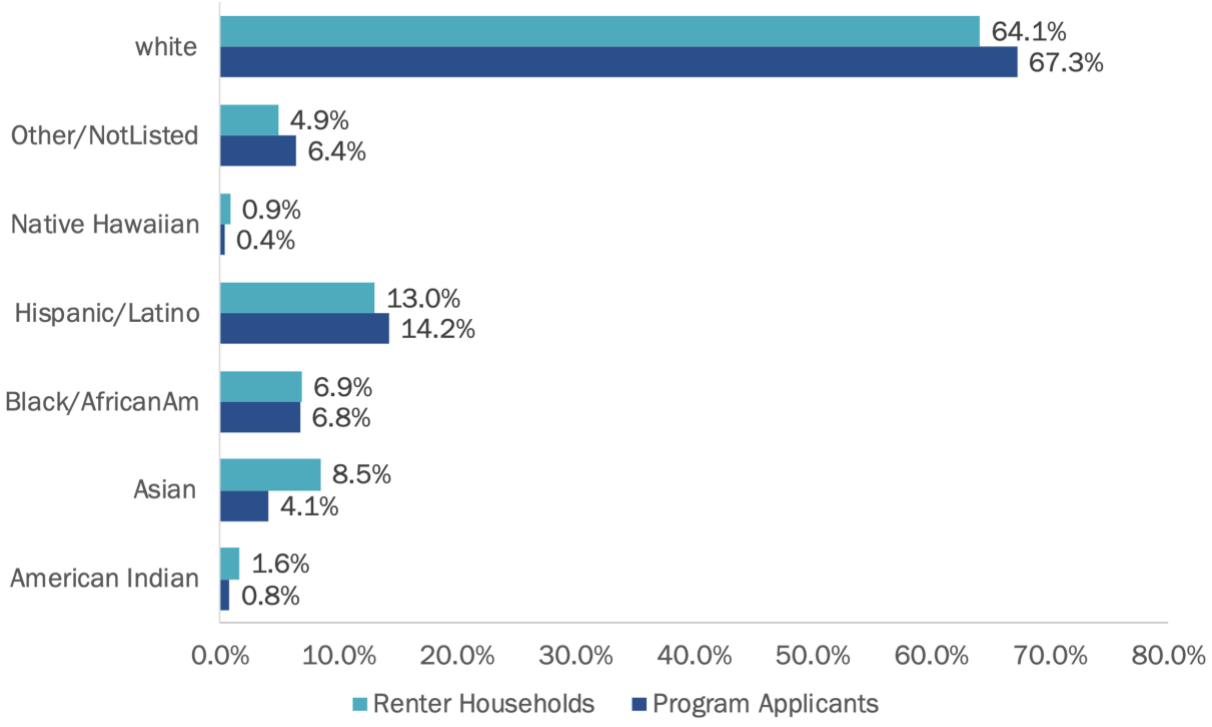
- Provides 4%-5% down payment/ closing cost assistance
- Statewide maximum income limit of $160,000
- No purchase price limits
- Interest rates vary with market and financing type
- Can reduce interest rate if buying an energy-efficient home
- No first-time homeowner requirement
- Program funds are unlimited

House Key Opportunity Program

- Offers below-market-rate loans for first-time homebuyers
- Borrower income limits at ~80% of county AMI
- Per county purchase price limits
- Interest rates vary with the market and financing type
- First-time homebuyer requirement
- Funds are limited

The races and ethnicities of program participants closely approximate their share of renter households across the state. White and Hispanic/Latino program participants are slightly overrepresented in the program, while Asian households are underrepresented (see Figure 16).

Figure 16. Home Advantage and House Key Opportunity Participants by Race, 2017-2021
Source: Washington State Housing Finance Commission loan data 2017-2021, 2019 ACS 1-year estimates



These Commission programs are succeeding in providing loans for lower-income households and households with lower credit scores. This analysis found that the median income for white participants (89.5% of AMI) was slightly higher than BIPOC participants (86.2% of AMI). More borrowers had credit scores in the 650-700 range than the national average.

Barriers within State-Funded Homeownership Assistance Programs

The accessibility and availability of funding for state homeownership programs are insufficient relative to the demand and need for low-income homeownership assistance. As described in Chapter 1. The State of BIPOC Homeownership in Washington, an additional 143,000 BIPOC households need to become homeowners to close the homeownership gap. The overall scale of state-funded programs is insufficient to make a meaningful difference in the BIPOC homeownership rate, given housing costs in today's market.

Some of the barriers within state-funded programs include:

- Per-household limits for down payment assistance programs (typically around $10,000) do not go far enough to help with today's home prices.
- Eligibility requirements can be a barrier, particularly credit scores.
- Many of the public assistance programs that require a traditional mortgage and private lenders do not help to overcome structural barriers that prevent BIPOC households from obtaining mortgages in the first place.
- Housing Trust Fund homeownership development limits per unit, per project, or per developer do not go far enough to help with today's development and construction costs, particularly in urban areas.
- The Housing Trust Fund is only creating 89 units per year on average, which is not enough to keep pace with the demand for affordable homeownership units.
- While King and Pierce Counties are serving more BIPOC households with HTF funds than would be expected from their general populations, the scale of total funding and assistance is small compared to the need.
- Although HTF funds for homeownership have increased in recent years, significantly more funding is needed to make any noticeable impact on BIPOC homeownership rates.

Chapter 5. Fair Housing and Protected Classes in Federal and State Laws

As the Work Group is focused on improving homeownership rates for BIPOC households, federal and state laws surrounding protected classes and fair housing have been a central part of discussions and considerations. Race is a protected class in the Washington Law Against Discrimination and the Fair Housing Act, meaning that policies and programs cannot deny or give preferential treatment to people based on their race, creed or religion, color, national origin, familial status, sex (including gender identity and sexual orientation), marital status, military status, age, or disability.[69]

The Fair Housing Act

The Fair Housing Act, passed in 1968, is a significant piece of legislation from the Civil Rights era. It aimed to remedy centuries of housing inequality by prohibiting discrimination concerning the sale, rental, and financing of housing based on race, religion, national origin, or sex. It made it illegal for both the government and private parties to discriminate on the basis of race in the sale or rental of housing.[70]

While the act had an important and positive impact on improving access to housing for people of color, it did not end housing segregation or close the homeownership gap that continues to exist between white and BIPOC households.[71] While forbidding the use of race as a factor in accessing housing had good intention, the law has proven to be a barrier to current efforts to target resources to racial minority groups who experienced the greatest harm from centuries of discriminatory practices. There are some early indications of change coming at the federal level, as the US Department of Housing and Urban Development (HUD) released its first-ever Equity Action Plan in April of this year. Part of this plan includes actions to reduce the racial homeownership gap "in recognition of a history of racial discrimination in federal programs."[72]

Washington State Law Against Discrimination

The Washington State Human Rights Commission (WSHRC) was established in 1949 to enforce the Washington State Law Against Discrimination (WLAD, RCW 49.60). The laws have been expanded several times, most recently in 2020. The HUD deemed the WLAD as substantially equivalent to Federal Housing Act.

Impact on Recommendations

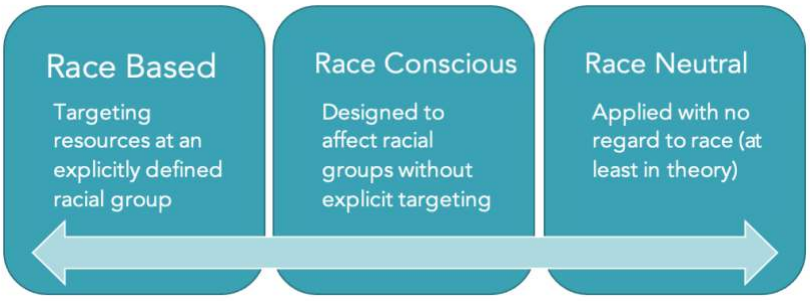
All workgroup members want to improve homeownership opportunities for BIPOC households. Most members agreed that race-based preferences in public resource allocation would be most effective in truly making progress in redressing the impacts that racist zoning, redlining, and housing policies have had on limiting wealth

generation for minoritized groups, understanding that this will require congressional and legislative action.

Understanding that the Fair Housing Act is a federal law, the Work Group suggests that the Washington State Legislature advocate for policy change at the federal level to address systemic racism and allow for policies, programs, and funding that directly address the issues causing racial disparities in homeownership through thoughtful and considerate programs targeted at historically and systematically excluded communities.

While the recommendations in this report adhere to the rules of the Fair Housing Act law, many Work Group members believe that more effective strategies could have been deployed had race-based recommendations been legal.

In compliance with fair housing laws, the recommendations advanced in Chapter 6 are not race based but attempt to be race conscious, meaning that they address disparate impacts and recognize and respond to the structural barriers that have long denied full homeownership participation to people of color in the United States. Recommendations were designed to close the BIPOC homeownership gap without explicitly targeting racial groups.



Disparity Studies

As discussed previously, both federal and state laws explicitly prohibit discrimination (or preference) based on race in renting or buying a home, getting a mortgage, seeking housing assistance, or other housing-related activities. Only in very rare instances are race-based policies legal, such as in the case of affirmative action programs or priority procurement programs for women and minority-owned businesses.

To qualify for an exception from the Equal Protection Clause of the 14th Amendment to the US Constitution, a program must pass a judicial test of "strict scrutiny," usually by conducting a disparity study.[73] In this study, the government must show sufficient evidence that a particular program is:

> (1) "justified by a compelling governmental interest," documented by econometric evidence of past or present racial discrimination requiring remedial attention; and

(2) is "narrowly tailored to remedy that discrimination."

In any case, race-neutral alternatives must be considered first. The courts have increasingly moved toward limiting the explicit consideration of race. Even if a court were to rule that promoting equity is a compelling state interest, it would still require the government, wherever possible, to use means other than race to achieve equitable outcomes.

Impact on Recommendations

The recommendations in the next chapter aim to lawfully prioritize populations based on factors like geography, socioeconomic status, and family homeownership, metrics that would center racial minorities but are not explicitly race based. If race-based policies were promoted, they would require a legally compliant disparity study that met the "strict scrutiny" standards listed above.

Chapter 6. Recommendations Analysis

The proviso specifically directed the Work Group to make recommendations to increase ownership unit development and access to credit.

The Work Group spent six months learning and analyzing the data on the state of BIPOC homeownership in Washington, reviewing the research literature on barriers to homeownership for these communities, hearing about how existing programs currently work and could be improved, and debating actionable recommendations for the governor and Legislature to consider. After conducting this work, the Work Group prioritized 27 recommendations to help overcome what they see as the two biggest barriers to BIPOC homeownership:

1) Affordable homeownership supply. Too few affordable homeownership options, including insufficient incentives to create affordable units.
2) Direct homeownership assistance. Insufficient assistance for BIPOC households who want to become homeowners, including down payments, closing costs, support with maintenance and repair needs, and/or mortgage assistance when necessary.

The Work Group crafted numerous recommendations for state agencies and the Legislature to consider in the hopes of overcoming these two barriers. These recommendations are detailed in the next section. The Work Group agreed unanimously on all but two recommendations (#15 and #16); they are included in the report as they reached more than 80% consensus with the Work Group members.

Given the array of forces creating and sustaining obstacles to BIPOC homeownership, the Work Group offers recommendations on three other categories of barriers. As these did not rise to the highest level of prioritization, implementation considerations were not provided. These are listed in the Additional Recommendations section.

In summary, the Work Group's recommendations relate to:

3) Lending products. Improving inadequate lending products for BIPOC borrowers, including better information, guidance, incentives, and policies.
4) Existing assistance programs. Overcoming the inaccessibility of existing assistance programs, including better marketing and expanded options.
5) Sustaining homeownership. Overcoming systemic factors that disproportionately affect BIPOC households' ability to sustain homeownership.

Priority Recommendations

These 27 priority recommendations were evaluated to provide context and information for stakeholders, legislators, agency and legislative staff, and advocates to adopt and move toward implementation. The table below lists:

- The recommendation number
- The category of barrier it helps to overcome (increase the supply of affordable homeownership units or increase direct assistance)
- The primary audience targeted in the recommendation
- A description of the recommendation
- Implementation notes for legislators and advocates

The table groups the recommendations based on "readiness:"

- Recommendations that can be advanced through administrative action at a state agency or legislative action for funding are listed first, since these are generally ready for quick implementation.
- Recommendations that require legislative action to change laws or create new programs and those that require additional research, analysis, or robust stakeholder engagement are listed as longer term, since they would not be acted on until late 2023 or beyond.

Priority Recommendations for the Near Term

These recommendations are ready to deploy in late 2022 or during the 2023 legislative session. These generally require administrative changes and/or legislative action for funding (rather than program creation, stakeholder outreach, or further study).

#, Category, & Audience	Description	Implementation Notes
#1 Increase Supply Legislature	Increase biennial state funding for affordable homeownership programs, including for land acquisition and predevelopment costs.	Requires ongoing legislative action to increase biennial funding. Building on existing Commerce or Commission programs, consideration is needed to improve access for eligible applicants, eligible use of the funds, and lending/grant terms.
#2 Increase Supply Legislature	Fund a technical assistance or capacity-building program to build the nonprofit organizational infrastructure to develop, finance, facilitate, build, and steward	Requires legislative action and funding. Requires research, analysis, or stakeholder engagement. The HTF should build on its existing programs and technical assistance resources, scale what works, and work with the industry to

#, Category, & Audience	Description	Implementation Notes
	all types of affordable homeownership projects.	identify gaps in knowledge, resources, and capacity. Research into best practices in other states should also be considered.
#3 Increase Supply Department of Commerce	Provide technical planning assistance and resources to municipal governments to increase affordable homeownership units.	Requires legislative action (if funding is needed). Requires research, analysis, or stakeholder engagement. The Commerce Growth Management Unit should build on its existing programs and technical assistance resources, scale what works, and work with the industry to identify gaps in knowledge, resources, and capacity. The unit should develop guidance on best practices and policy tools for municipal governments developing affordable homeownership unit opportunities.
#4 Increase Supply Department of Commerce	Revise the Housing Trust Fund and programs at the Housing Finance Commission to reduce the administrative burdens on applicants, such as: a. Streamlining the application process. b. Reducing the time from funding award to contract execution.	Requires research, analysis, or stakeholder engagement. Commerce has made efforts to streamline the HTF application,[vi] but more improvements could be made. Commerce and Commission staff should work with stakeholders to understand how they can further streamline and improve programs, applications, and reporting requirements to ease the burden on nonprofits.
#5 Direct Assistance Legislature	Increase the amount of funding available for direct assistance to homebuyers and homeowners.	Requires legislative action and funding. May require interdepartmental coordination. Direct assistance may include down payment assistance, home repair/maintenance assistance, or other types of assistance to retain or sustain homeownership. Building on existing HTF programs, consideration is needed for the eligible

[vi] Recent changes include aligning the application requirements and definitions with other funding sources (about four years ago the Department of Commerce expanded the definition of "homebuyer" at the request of HTF recipients to align with other the definition used by funding sources); aligning the application process with other funding sources; and aligning reporting requirements of the HTF with those required by other funding sources (HTF reporting requirements are centralized in the state's Web Based Annual Reporting System [WBARS], which is shared with 12 other public funders: cities, counties, and the Washington State Housing Finance Commission, which oversees the Low-Income Housing Tax Credit program).

#, Category, & Audience	Description	Implementation Notes
		applicants, eligible use of the funds, and lending/grant terms. Efforts should be made to leverage other existing government funding sources without requiring overly burdensome layers of regulation or oversight.
#6 Direct Assistance Department of Commerce	Make current programs more flexible by increasing the per-household limits on existing assistance awards.	Increasing award limits is within Commerce's administrative purview. Engaging with stakeholders before making a policy change would be appropriate. Consideration is needed for the new assistance limits, new uses of funding, and other program factors, with the understanding that higher per-applicant caps mean fewer applicants receiving awards without more appropriations from the Legislature.
#7 Direct Assistance Department of Commerce	Target homeownership assistance to the BIPOC community, such as: a. Prioritize assistance to people who have current or historical ties to previously redlined neighborhoods. b. Prioritize assistance to neighborhoods that are vulnerable to gentrification and displacement or facing environmental justice issues, such as climate change or pollution. c. Prioritize assistance to first-generation homeowners.	This may need administrative changes or may require the creation of a new program. Due to Fair Housing Laws, consideration is needed for targeting mechanisms to ensure compliance while achieving intended goals. If a program uses a geographic boundary, the implementing agency would need to determine the boundaries and monitor changes within the geography over time to ensure that the program funds meet their intended goals and that unintended consequences do not occur.
#8 Direct Assistance Legislature	Provide incentives to home sellers to accept offers from purchasers using down payment assistance programs, such as expanding the Real Estate Excise Tax (REET) exemption in HB 1643 to	Requires legislative action. To achieve the broadest impact, a program should be available to all income-qualified households beyond those receiving HTF or other state-funded direct assistance.

#, Category, & Audience	Description	Implementation Notes
	sales to individuals using down payment assistance.	
#9 Direct Assistance Legislature Department of Commerce	Expand debt mediation and credit repair programs.	Requires legislative action for funding. Requires research, analysis, or stakeholder engagement. Public and private debt mediation and credit repair programs are already offered, but they should be expanded. To achieve the broadest impact, a program should be available to all households, beyond just those receiving HTF or other state-funded direct assistance. The implementing agency should connect with nonprofits and community organizations already doing this work to advertise and market programs to prospective and existing homeowners.
#10 Direct Assistance Department of Licensing Department of Financial Institutions	Ensure that awareness of homeownership programs is part of licensing and education requirements for people in the real estate industry.	Requires research, analysis, or stakeholder engagement. The implementing agency would need to work with a variety of agencies and departments involved in the licensing and regulation of real estate actors, such as mortgage lenders, bankers, insurers, appraisers, agents, and realtors or brokers.
#11 Direct Assistance Legislature	Fund culturally specific organizations for outreach to increase the visibility of and access to homeownership assistance programs for BIPOC communities.	Requires legislative action and funding. Requires research, analysis, or stakeholder engagement. Commerce has existing outreach programs that could be expanded. The implementing agency should connect with nonprofits and community organizations already doing this work to advertise and market programs to prospective and existing homeowners.
#12 Direct Assistance	Improve connections with BIPOC communities to	Requires research, analysis, or stakeholder engagement.

#, Category, & Audience	Description	Implementation Notes
Legislature	ensure their barriers are understood by funders.	The implementing agency should conduct stakeholder engagement with affected communities and nonprofits and community-based organizations that are successfully reaching them to identify barriers and gaps and find solutions to improve community connections.

Priority Recommendations for the Longer Term

These recommendations are not ready to deploy in the next two years. These are mostly recommendations that require legislative action to create a new program, change a law, conduct stakeholder outreach, or fund and conduct further study. They may require legislative action during the 2023 session to flesh out ideas or conduct further study.

#, Category, & Audience	Description	Implementation Notes
#13 Increase Supply Legislature	Increase and expand funding for the development of affordable homeownership units, particularly incentives for local governments that can reduce construction or land acquisition costs.	Requires legislative action to increase funding. Requires research, analysis, or stakeholder engagement. The implementing agency would need to conduct research, analysis, or stakeholder engagement to understand the most useful types of incentives.
#14 Increase Supply Department of Commerce Legislature	Target state funding for affordable homeownership unit development to specific geographies, such as “high opportunity” areas, areas at risk of gentrification, rural areas, or areas that have previously seen the displacement of BIPOC households.	Requires legislative action to increase funding. Requires research, analysis, or stakeholder engagement. The implementing agency would need to evaluate the geographic boundaries chosen and monitor changes over time to ensure that gentrification and displacement from new development do not occur. The agency would need to evaluate the mechanism to designate an area (such as an overlay zone or layer) as well as the types of incentives that are most appropriate to target in different areas.
#15 Increase Supply	Mandate or offer additional incentives for local zoning changes, such as increased allowable density, height, or	Requires legislative action and funding. Requires research, analysis, or stakeholder engagement.

#, Category, & Audience	Description	Implementation Notes
Legislature	floor area ratio (FAR), to encourage the creation of more affordable homeownership units.	These incentives are currently at a local government's discretion. The Legislature has the authority to require cities/counties to offer these incentives or to create a statewide program. Analysis is needed to calibrate the development incentives to ensure they offset reductions in feasibility. A process to monitor and adapt the program is needed to ensure it aligns with market costs.
#16 Increase Supply Legislature	Mandate or offer additional incentives for the development of affordable homeownership units, such as expediting permitting processes and/or waiving impact fees.	Requires legislative action and funding. These incentives are currently at a local government's discretion. The Legislature has the authority to require cities/counties to offer these incentives or to create a statewide program. Impact fees pay for local infrastructure and services. If the state requires these to be waived, it may need to offer cities/counties funding to offset the lost resources.
#17 Increase Supply Legislature	Specify limited equity cooperative (LEC) eligibility and include shared ownership and shared loans as eligible for down payment assistance and other resources in state programs.	Requires legislative action. LECs are for-profit entities and therefore ineligible for grant funding. Changing this requires legislative action and careful consideration. Changing Commerce Housing Trust Fund policies (the HTF Handbook) requires policy review and consultation with stakeholders, other funders, the Affordable Housing Advisory Board, and its subcommittee, the Policy Advisory Team.
#18 Increase Supply Legislature	Create a program to offer loan guarantees to nonprofits to build more affordable homeownership units.	Requires legislative action to fund and create a program. Requires research, analysis, or stakeholder engagement. The implementing agency would need to conduct research, analysis, or stakeholder engagement to understand: • The most useful types of financing. • The legal authority to offer loan guarantees.

#, Category, & Audience	Description	Implementation Notes
		• How much direct/secondary financing could be taken on under current risk and lending limits/policies. • The process for changing current risk and lending limits/policies.
#19 Increase Supply Legislature	Fund a comprehensive land identification, mapping, assemblage, and acquisition strategy statewide.	Requires research, analysis, or stakeholder engagement. Requires legislative action to fund and create a program. Commerce tracks some state agency surplus land available for housing in an annual report per RCW 43.63A.510, but this effort could be expanded. The implementing agency would need to develop a program or tool to identify and map vacant land or redevelopment sites suitable for housing. Research, analysis, and stakeholder engagement is needed to understand the barriers that the land assembly strategy would help to overcome.
#20 Increase Supply Legislature	Require state agencies to donate surplus land to organizations building affordable homeownership units.	Requires legislative action to fund and create a new program. The Legislature could require state agencies with surplus land to offer it at below-market costs (or no cost) for affordable homeownership development. RCW 39.33.015 provides existing authority allowing state agencies, municipalities, or political subdivisions to provide surplus land for housing, including at no cost, but this is not a requirement. The implementing agency would need to create a program to map, evaluate housing suitability, and track surplus land. It would also need to work with other state agencies as they seek to dispose of land and establish the affordability requirements exchanged for the low-cost land.
#21	Pilot factory-built housing production to create more	Requires legislative action.

#, Category, & Audience	Description	Implementation Notes
Increase Supply Legislature	affordable homeownership units.	Requires research, analysis, or stakeholder engagement. Commerce was tasked by previous budget provisos to pilot some innovative development (such as tiny homes and modular housing). The likely method of implementation is a pilot program working with housing developers already in or looking to expand into this space, or manufacturers working to provide housing units. The implementing agency (likely Commerce) would need funding to design, staff, and operate a pilot program and would need to identify housing developers and manufacturers to work with.
#22 Increase Supply Legislature	Authorize more financing for missing middle housing, so it is easier for organizations to secure financing, including predevelopment costs, to create new affordable homeownership opportunities.	Requires legislative action. Requires research, analysis, or stakeholder engagement. The implementing agency would need to conduct research, analysis, or stakeholder engagement to understand: • Challenges for middle housing developers to access existing funding. • The types of financing most useful to unlock this type of development.
#23 Increase Supply Legislature	Authorize changes to tax policy to encourage the development of affordable homeownership units.	Requires legislative action to create a new program. Requires interdepartmental coordination. Requires research, analysis, or stakeholder engagement. The implementing agency would need to conduct research, analysis, and stakeholder engagement to study the opportunities to utilize tax policy to encourage affordable homeownership opportunities. An example of a past tax policy that encouraged affordable homeownership is HB 1643 (2022), which exempts the purchase or transfer of land used for affordable housing

#, Category, & Audience	Description	Implementation Notes
		(rental or homeownership) from the Real Estate Excise Tax (REET).
#24 Increase Supply Legislature	Enact policies that interrupt the growing trend of real estate transactions going to investors rather than individual homebuyers.	Requires research, analysis, or stakeholder engagement. Requires creating new programs and or regulations. Requires larger systems change. This recommendation is aimed at larger systems affecting a variety of industries and players (capital investment, lending, real estate, regulations, etc.). The changes might require legislative action or monitoring/implementing programs for a state agency. The implementing agency would need to conduct research, analysis, and stakeholder engagement to study the issue of investor competition and develop recommendations that could effect change across a variety of industries (lending, real estate, regulations, etc.) to make this a reality.
#25 Direct Assistance Legislature	Make current programs more flexible by: a. Allowing direct assistance beyond down payment assistance to include home repair/ maintenance assistance and/or assistance to retain or sustain homeownership. b. Providing assistance for homebuyers above 80% AMI.	Expanding the eligible uses for state-funded homeownership assistance programs requires legislative action. The state cannot lend or grant funds to households who are not low income, which is generally considered to be those earning less than 80% of AMI. Increasing program income eligibility limits requires legislative action.
#26 Direct Assistance Legislature	The state should reauthorize funding for individual development accounts and other matched savings accounts.	Requires legislative action. The Individual Development Accounts (IDA) program previously allowed for matched savings for the purchase of a home. It should be refunded and expanded to match savings for additional homeownership costs that help BIPOC households sustain homeownership

#, Category, & Audience	Description	Implementation Notes
		(such as ongoing maintenance and repair expenses).
#27 Direct Assistance Legislature	Fund government-backed loans, so that large down payments are not necessary	Requires legislative action to create a program. Requires research, analysis, or stakeholder engagement. The implementing agency would need to conduct research, analysis, or stakeholder engagement to create a program and to understand: • The legal authority of offering government-backed loans. • The process for changing current risk and lending limits/policies. • New lending terms, eligibility requirements, and application criteria. • The amount of funding necessary. To achieve the broadest impact, a program should be available to all households, beyond just those receiving HTF or other state-funded direct assistance. The implementing agency should connect with nonprofits and community organizations already doing this work to advertise and market programs to prospective and existing homeowners.

Additional Considerations

The following suggestions are also endorsed by the Work Group members but were not prioritized for further implementation analysis. Many of these suggestions are beyond the control of the Legislature or state agencies and call for bold, sweeping changes to numerous industries or current laws. Because the Work Group believes that bold initiatives are needed for substantive change to occur, it included these additional suggestions to highlight the extent of changes needed.

Recommendations to Overcome the Barrier of the Inadequacy of Lending Products for BIPOC Borrowers

A. **Make existing financial products more profitable.** The state should work to make existing state lending products more profitable for lenders to increase uptake and help overcome existing barriers by:

- Increasing the number of lenders participating in down payment assistance programs and boosting awareness of these programs
- Increasing incentives to lenders who make loans to first-time homebuyers
- Advocating for changes in Fannie Mae and Freddie Mac to restore the HFA Preferred Program and lessen their reliance on credit scores, or finding new ways to measure creditworthiness
- Offering grants or other incentives to allow lenders to make loans that would otherwise be unprofitable, such as:
    - Offering assistance to financial institutions that make smaller loans more profitable and thus encourage lending for cooperative housing
    - Offering a guaranteed return (or loss prevention) to the lender for taking on the loan

B. **Make current industries work better for BIPOC households.** The state should enact policies to make current financing, lending, banking, and other real estate industries work better for BIPOC households, such as:

- Recruiting lenders, appraisers, and other professionals that more accurately reflect the diversity of the community served, while ensuring compliance with state and federal laws that prohibit discrimination in employment
- Addressing discrimination within home valuations
- Incorporating racial bias training for real estate, lending, and appraising professionals
- Addressing disparities within the automated underwriting system
- Combatting predatory lending
- Reforming how credit scores are calculated to include rental and other monthly payments in credit score calculations
- Advocating for the elimination of price-based differentials based on credit and down payment size with federal housing agencies
- Advocating for additional support for technological innovation for FHA and VA loans

C. **Fund alternative financing programs.** The state should fund alternative programs to the traditional bank-financed mortgage to help overcome existing barriers, such as:

- Lending programs that consider incomes and eligibility of the entire family/household, not just the borrower (could be responsive to cultural family dynamics)
- Programs that use nontraditional credit and manual underwriting options instead of algorithms
- Programs or loan products that do not use typical credit scores

D. **Fund pilot programs.** The state should fund pilot programs that emulate lessons learned in other states to help overcome existing barriers, such as:

- Special-purpose credit programs to make homeownership accessible to people historically denied access to opportunity in the financial system
- Programs to help prospective homebuyers repair their credit and understand the impact of credit ratings

Recommendations to overcome barriers related to the inaccessibility of existing assistance programs

A. **Expand funding and resources available.** The state should offer additional funding and resources for potential homeowners, such as:

- Increasing marketing of free/available resources with emphasis on BIPOC households and/or new immigrants
- Funding housing counselors to work with individuals wanting to buy a home

B. **Help overcome cultural barriers.** The state should work to overcome cultural barriers by:

- Advertising and marketing the benefits of homeownership, financial and otherwise, to BIPOC communities to disprove or overcome family culture and expectations of not being a homeowner
- Using trusted messengers and partnerships with community-based organizations to promote awareness of homeownership programs
- Encouraging culturally specific homebuyer education programs via partnerships with local organizations/faith groups/immigrant populations
- Changing language that can be misleading (such as "first-time homebuyer")
- Encouraging more people identifying as BIPOC to enter the real estate and mortgage lending fields

C. **Enhance existing programs.** The state should change existing policies and programs by:

- Changing or offering alternative class structures (for the home buying process, financial capability, foreclosure prevention, etc.) that expand accessibility (such as shorter classes, classes on weekends or at various times of day)
- Offering or requiring better education for real estate agents to know how to get first-time homebuyer offers accepted (compared to those with more capital)
- Creating funding distribution parameters to ensure certain groups throughout the state have access to support/resources

D. **Increase education on fair housing law.** Agencies that administer homeownership assistance should ensure that homeowners are educated on the protections of state and federal Fair Housing laws.

- All programs that participate in administering programs included in these recommendations should receive training on state and federal Fair Housing laws for their staff and volunteers
- All such programs will incorporate nondiscrimination statements on all marketing and/or outreach materials, such as: "We do business in accordance with the Federal Fair Housing Act and the Washington State Law Against Discrimination" or "We welcome all participants without regard to race, color, creed, national origin, sex, sexual orientation or gender identity, honorably discharged veteran or military status, HIV/AIDS or Hepatitis C status, the presence of any sensory, mental, or physical disability, families with children status, or use of an assistance animal by a person with a disability."

Recommendations to overcome systemic barriers preventing BIPOC households from sustaining homeownership

A. **Increase and diversify homeownership funding.** The state should offer additional funding and resources for homeowners, such as:

- Housing counselors to work with homebuyers for at least three years after they purchase
- Counseling programs that increase awareness of the steps needed to sustain homeownership
- Cohorts and homebuyer clubs for ongoing support for homebuyers (new funding for new programs and funding those that already exist)

B. **Fund new programs.** The state should create new programs to monitor and assist homeowners at risk of losing their homes, such as:

- Programs aimed at promoting healthy mortgage servicing relationships and loss mitigation options
- Programs that evaluate the risk of foreclosure and offer early interventions to prevent foreclosure and subsequent wealth loss
- Fund better protections for homeowners who experience income shocks like unemployment or illness
- Programs offering aggressive loan forbearance and credit reporting mandates to protect BIPOC homeowners and potential homebuyers from financial devastation due to the COVID-19 pandemic and other such macro shocks

C. **Conduct additional research.** The state should conduct studies and evaluate existing policies surrounding the costs of homeownership, such as:

- Study the reasons why people lose their homes and invest in programs that address these problems, such as the Foreclosure Fairness Program
- Study whether reserve studies for homeowners associations (HOAs) are complete and accurate and that buyers understand them
- Emphasize policies that do not add to the cost of housing or find ways to eliminate costs
- Support rent relief programs to help BIPOC homebuyers improve their financial position and/or credit and promote savings for down payments

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Appendix A. Housing Definitions

These definitions come from either the Work Group itself or the Housing Trust Fund Handbook Glossary.

Affordability. Affordability is achieved when a household's rent and utility costs (other than telephone) do not exceed 30% of the monthly income for the targeted income group as adjusted for household size. In the context of homeownership, affordability occurs when a household's monthly housing costs are generally no more than 38% of monthly household income and total debt is no more than 45% of monthly household income. Housing costs include mortgage principal, interest, property taxes, homeowner insurance, homeowner association fees, and land lease fees, as applicable. Total debt includes other debt and utilities.

Area Median Income (AMI). See median family income (MFI).

Community Land Trust. A private, nonprofit, community-governed and/or membership corporation whose mission is to acquire, hold, develop, lease, and steward land for making uses such as housing, farmland, gardens, businesses, and other community assets permanently affordable for current and future generations. A CLT's bylaws prescribe that the governing board is composed of individuals who reside in the CLT's service area, one-third of whom are currently or could be CLT leaseholders.

Date of Occupancy. The date at which either a renter or household occupies a unit or a homeowner closes on the purchase of a house.

Direct Assistance Programs. Publicly funded programs that provide financial support to assist a person with a variety of homeownership opportunities including but not limited to the purchase of a home, mortgage payments, energy and utility payments, home improvements, and the refinancing of a home.

Displacement. The permanent relocation of a person (to include families, individuals, businesses, nonprofit organizations, and farms) as a result of a project assisted with HTF funds.

Displaced Person. A person (family, individual, business, nonprofit organization, or farm, including any corporation, partnership, or association) that moves from real property or moves personal property from real property permanently as a direct result of acquisition, rehabilitation, or demolition of a project assisted with HTF funds.

Down Payment. The cash difference between the contract price for the property being purchased and the amount covered by the mortgage.

Eligible Project Types [for HTF]. Assisted-living facilities, boarding homes, emergency shelters (including shelters for persons experiencing homelessness and survivors of domestic violence), group homes, homes for first-time homebuyers, multifamily rental

housing, seasonal and year-round housing for farmworkers, transitional housing, and permanent supportive housing.

Extremely Low-Income Households. Households earning 30% of the area median income or less.

Farmworker Household. A household whose income is derived from farm work in an amount not less than $3,000 per year and which, at the time of initial occupancy of the housing project, has an income at or below 50% of the area median income. Also, see household.

First-Time Homebuyer. An individual or their spouse or domestic partner who has not owned a home during the three-year period prior to purchase of a home. Substitute Senate Bill 5651 from the 2022 session amends the 2021-2023 Housing Trust Fund Capital Budget and changes the definition of a first-time home buyer as follows:

> (a) In addition to the definition of "first-time home buyer" in RCW 43.185A.010, for the purposes of awarding homeownership projects during the 2021-2023 fiscal biennium, "first-time home buyer" also includes:
>
> (i) A single parent who has only owned a home with a former spouse while married;
>
> (ii) An individual who is a displaced homemaker as defined in 24 C.F.R. Sec. 93.2 as it existed on the effective date of this section, or such subsequent date as may be provided by the department by rule, consistent with the purposes of this section, and who has only owned a home with a spouse;
>
> (iii) An individual who has only owned a principal residence not permanently affixed to a permanent foundation in accordance with applicable regulations; or
>
> (iv) An individual who has only owned a property that is discerned by a licensed building inspector as being uninhabitable.

First-Generation Homebuyer. A person whose immediate parent or guardian did not own a home during their lifetime.

Gross Income. Includes a household's earned income, income from assets, and income from other sources as defined by 24 CFR Part 5 §5.609.

Household. One or more persons inhabiting a housing unit as their principal residence.

Interest. The amount of money charged by the lender for the use of a principal amount of money. It is expressed as a percentage and may be calculated in a variety of ways. The interest rate may be fixed over the life of the loan or may be adjustable at regular intervals as defined by the lender.

Loan. Funds provided by a lender to the housing project, which must be repaid to the lender within a specified period of time and under certain conditions.

Low-Income Household. A single person, family, or unrelated persons living together whose adjusted income is less than 80% of the median family income, adjusted for household size, for the county where the project is located.

Low-Income Housing Covenant. A covenant is a legal instrument used to document an agreement to ensure or exclude certain uses or activities pertaining to a specific piece of property. In the case of the Housing Trust Fund, the covenant ensures that the land will be used for low-income housing (sometimes for particular groups of people) for a specified period of time (usually 40 years). The covenant runs with the land and is still in force, even if the land is sold.

Median Family Income (MFI). The US Housing and Urban Development (HUD) produces an area median family income each year to measure affordability thresholds against. Affordable housing deals, loans, and other HUD requirements will be assigned to a percentage of the MFI. HUD defines an area's median family income (MFI), but AMI is often used to mean the same thing. A note on MFI vs. AMI from HUD:

> "HUD estimates Median Family Income (MFI) annually for each metropolitan area and non-metropolitan county. The metropolitan area definitions are the same ones HUD uses for Fair Market Rents (except where statute requires a different configuration). HUD calculates Income Limits as a function of the area's Median Family Income (MFI). The basis for HUD's median family incomes is data from the American Community Survey, table B19113 - MEDIAN FAMILY INCOME IN THE PAST 12 MONTHS. The term Area Median Income is the term used more generally in the industry. If the term Area Median Income (AMI) is used in an unqualified manor [sic], this reference is synonymous with HUD's MFI. However, if the term AMI is qualified in some way - generally percentages of AMI, or AMI adjusted for family size, then this is a reference to HUD's income limits, which are calculated as percentages of median incomes and include adjustments for families of different sizes."[vii]

Middle-Income Housing. Housing that is typically affordable to households earning between 80% and 120% of an area's MFI.

Missing Middle Housing. Missing middle housing is a term coined by Opticos Design to refer to medium-density housing types like duplexes, triplexes, townhouses,

[vii] HUD. 2018. "FY 2018 Income Limits Frequently Asked Questions." https://www.huduser.gov/portal/datasets/il/il18/FAQs-18r.pdf

courtyard-style apartments, cottage clusters, or accessory dwelling units.[viii] This is not to be confused with middle-income housing, which is focused on the level of affordability of the unit rather than the typology of the housing. Missing middle housing is often aligned with middle-income housing because it is smaller than typical single-family housing types and thus more affordable, but that is not always the case.

Modular Housing. A modular home is a factory-assembled structure designed primarily for use as a dwelling when connected to the required utilities that include plumbing, heating, and electrical systems contained therein, does not contain its own running gear, and must be mounted on a permanent foundation. A modular home does not include a mobile home or manufactured home. (RCW 46.04.303)

Permanently Affordable Homeownership. Homeownership units that are sponsored by a nonprofit organization or government entity that are subject to a ground lease or deed restriction that includes a resale restriction, among other requirements, and where the sponsor and organization executes a new ground lease or deed restriction with a duration of at least 99 years at the initial sale and with each successive sale.

Placed in Service. A project that has been completed and achieved 90% occupancy in the case of multifamily/rental projects or 100% occupancy in the case of homeownership projects.

Rural. Projects will be deemed "rural" to determine if they contribute to the HTF statutory target of 30% rural projects (see RCW 43.185.050 [1]) and to determine which Evergreen Sustainable Development Standard requirements apply if they are located in:

- Counties with a population of less than 90,000, except for those cities within these counties with a population of greater than 25,000. For example, Franklin County, except the City of Pasco.
- Counties with a population greater than 90,000 but less than 390,000 when more than an aggregated 25% of that county's population reside in one substantially contiguous metropolitan area. In this case, the county except such metropolitan area would be considered rural. For example, Yakima County, except the City of Yakima.
- Counties with a population greater than 390,000 but where the project is located in a sufficiently remote location to be reasonably considered as not associated with an urban center. For example, Eatonville, Pierce County. Applicants for projects thought to be in rural areas under this definition should contact HTF staff for an official determination prior to submitting an application for funding.

[viii] Opticos Design, 2017, "Missing Middle Housing: Responding to the Demand for Walkable Urban Living," https://opticosdesign.com/wp-content/uploads/2017/08/MissingMiddle_Slides_OpticosDesign.pdf

Single-Family Housing. A structure designed for residential use by one family, or a unit so designed, whose owner owns, directly or through a nonprofit housing organization, an undivided interest in the underlying real estate, including property owned in common with others. In the HTF context and in terms of HTF eligible housing models, both homeownership and rental housing models can involve the development or acquisition/rehab of single-family structures. The housing model rather than the physical building structure determines HTF program eligibility, as well as application and contracting criteria.

Total Development Cost (TDC). The sum of project development costs noted on a project development budget. Such costs will include building/land acquisition and construction/rehabilitation hard and soft costs (such as development and other development costs noted on the HTF development budgets). Residential and nonresidential TDCs may be noted in the HTF applications.

Urban. An urban area or community is defined as any municipality with a population greater than 25,000, which does not fall into the definitions of rural. Projects located within a municipality with a population less than 25,000 but which is adjacent to a city deemed "urban" may be deemed functionally related to that city and therefore also deemed urban. For example, Brier, population 6,361 (2003), which is functionally related to the City of Lynwood. Also, review the rural definition above.

Appendix B. Literature Review of Barriers to BIPOC Homeownership

This appendix provides a literature review of the barriers to BIPOC homeownership. While many of these findings have been incorporated into Chapter 2. Affordable Homeownership Supply Barriers and Chapter 3. Financial Barriers to Acquiring and Sustaining Homeownership for BIPOC Households, this appendix provides a more robust review than was provided in the body of the report. Additional citations are also provided to link readers to the research.

1. Barriers to the Supply of Affordable Homeownership Units

This section describes the types of homeownership units that are more affordable to BIPOC households, macroeconomic trends in the construction of these units, and common reasons why the construction of these units is declining. Where items lack citation, they come from the consulting team's housing development knowledge and expertise.

What are Affordable Homeownership Unit Types?

The term "affordable housing" can have several meanings. On its own, the term typically connotes rent or income-restricted rental housing that has a public subsidy requiring that the unit be rented or sold at "affordable" prices. In this second use of the term, this means the house is affordable to a low-income household, such that the household pays less than a certain threshold of their income toward housing.

In rental housing, affordability is typically considered to be when a household pays no more than 30% of its pretax income on housing costs. In the context of homeownership, this threshold is slightly higher. The Washington State Housing Trust Fund defines affordability as occurring "when a household's monthly housing costs are generally no more than 38% of monthly household income and total debt is no more than 45% of monthly household income. Housing costs include mortgage principal, interest, property taxes, homeowner insurance, homeowner association fees, and land lease fees, as applicable. Total debt includes other debt and utilities."[74]

The following types of housing units are generally considered more affordable, as in "lower cost," than newly constructed single-family detached homes. However, among these different unit types, there can be wide price differences, so these are not guaranteed to be more affordable or lower cost in all circumstances. Condominiums, for example, can be less expensive than single-family homes in some areas and circumstances, but in other situations, they can be just as expensive or even more expensive than newly constructed single-family detached homes. Typically, affordable housing types include:

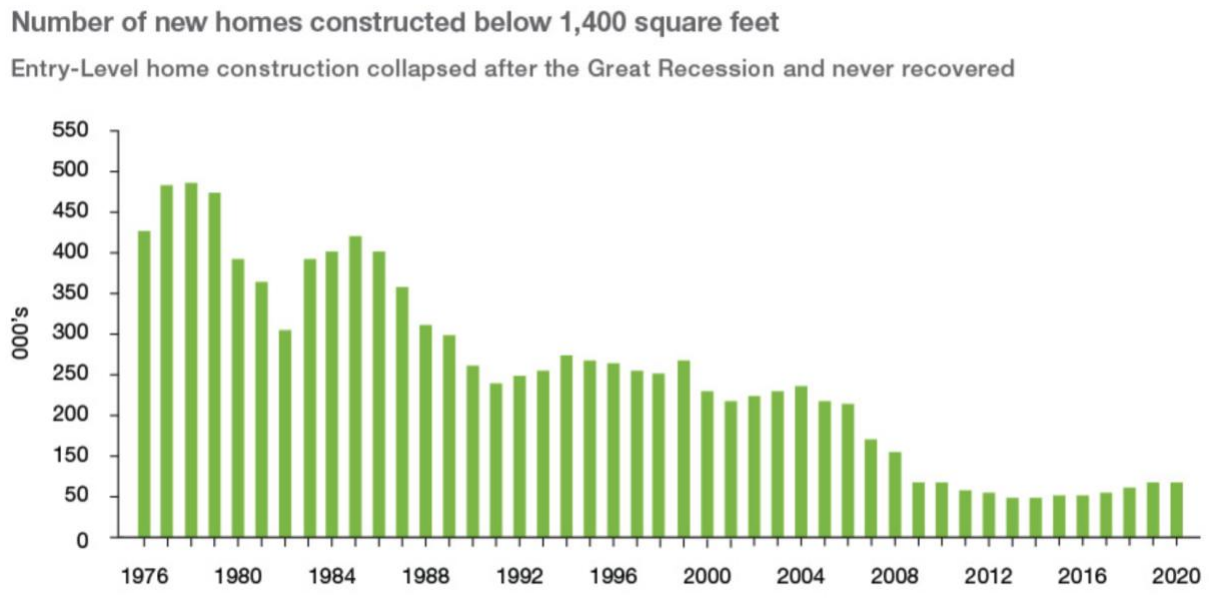
- Older homes needing rehabilitation

- Homes in areas with little access to amenities
- Smaller homes or homes with fewer amenities (new or existing)
    - "Patio homes" (slab-on-grade homes without a basement)
    - Townhomes
    - Condominiums
    - Missing middle housing types (such as accessory dwelling units, duplexes, fourplexes, courtyard-style units, etc.)
    - Modular homes
    - Mobile or manufactured homes
- Cooperative housing
- Limited/shared equity or sweat equity homes (such as Habitat for Humanity builds)

Barriers to Developing Affordable Homeownership Units

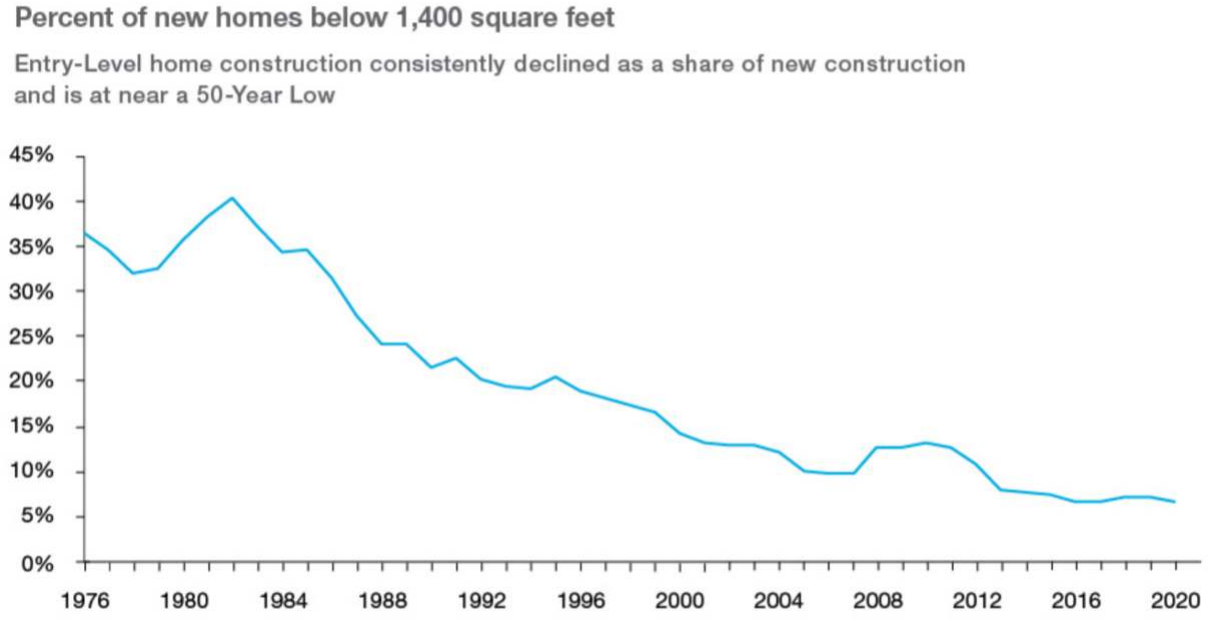
The United States has underproduced housing units to meet demand for some time.[75] Freddie Mac estimates that the decline in single-family homes is the main driver of this overall housing shortfall and that the decline in "entry-level" single-family homes (which they define as homes under 1,400 square feet) has seen an even larger decline.[76] Freddie Mac's research suggests that entry-level homes accounted for roughly 34% of all new homes completed in the 1970s, but by 2019 its share dropped to only 7% of all new homes completed.

Figure 17. Decline in Number of Newly Constructed Smaller Homes



Source: Freddie Mac. 2021. http://www.freddiemac.com/research/insight/20210507_housing_supply.page. Data from U.S. Census Bureau.

Figure 18. Decline in Newly Constructed Smaller Homes as a Share of All New Home Construction



Source: Freddie Mac. 2021. http://www.freddiemac.com/research/insight/20210507_housing_supply.page. Data from U.S. Census Bureau.

I. Development Costs as a Barrier to New Construction of Affordable Homeownership Units

In the homeownership market, sales prices need to offset development costs and the profit/return requirements of the developer, investor, and financer. When development costs are high, the sales price needed to break even or profit will be even higher. Development costs include land, materials, construction labor, soft costs (architecture, engineering, financing, insurance), systems development charges from public jurisdictions, and costs of required design elements (open spaces, parking, setbacks, etc.).

If total development costs are too high, development is unlikely to occur as the project will not break even or return a profit to the investors and developers without some form of financial assistance.[77]

Financing and Investment Return Requirements

In addition to development costs, there are also financial requirements and standards that determine the minimum amount of return on development that a developer or lender will accept. This translates to selling prices or rental costs that can be too high for many homeowners or renters to afford.[78]

II. Zoning and Land Availability

Zoning regulations can make it difficult or illegal to build smaller, lower-priced units or more units to help ease supply and demand issues. These considerations include limits on density, meaning fewer houses can be built overall, minimum lot sizes requiring

larger properties, parking requirements taking away developable land, building codes with costly requirements, and tax lot laws that prevent developers from splitting lots or developing homeownership units instead of rentals.[79, 80, 81]

III. Construction Defect Liability

Although recent legislation in Washington has worked to address this issue, condo defect liability laws have steered the market away from producing condos, which are higher density, smaller, and thus more affordable homeownership options. Common barriers to condo development include the ability for developers to secure loans (including Federal Housing Administration [FHA] loans) due to insurance and inspection regulations and requirements.[82]

IV. Labor Shortage

Higher construction wages due to a shortage of construction workers, especially skilled trade contractors like carpenters, electricians, plumbers, and bricklayers, have driven up the cost of all types of construction. The housing crash in 2008 and the subsequent recession drove thousands of construction workers out of the industry. Demand for labor has surged with the recovery of the housing market, but older workers are retiring, while fewer young people are entering the construction trades to replace them.[83]

V. Difficulty Scaling Alternative Affordable Homeownership Development Models

Nonprofit organizations primarily develop lower-cost homeownership products, such as shared-equity models; these include community land trusts, "sweat-equity" models (such as Habitat for Humanity), or cooperative housing models. However, scaling up has been difficult due to limited funding and the variety of views on what scaling up should be and how it should be implemented.[84, 85] Additionally, these organizations also compete for construction labor with higher-priced developments, which can offer more incentives to construction workers.

VI. Development Timelines and Risk

Because most housing developments are paid with loans, delays and long timelines cost money via carrying costs or the interest payments that are accruing on loans. Therefore, long development timelines (such as permitting processes and environmental reviews), risk to development processes (such as changing laws, environmental challenges, or lawsuits), and delays (such as local opposition) all cost money and reduce interest in development, thereby driving up prices and reducing supply.

VII. Limited Government Subsidies to Develop More Units

When developers and investors cannot realize the profits and return on investments needed to offset the risk of development—or if costs are too high for a market price—development will not occur without financial subsidy. However, federal housing assistance is not an entitlement program where supply flexes to meet demand and

eligibility, and funds are limited. In addition, federal development subsidies are used for incentivizing the building of *both* rental units and homeownership units, and there is no specific federal program devoted to exclusively subsidizing the development of affordable homeownership units.

In Washington, the availability of public subsidies through the HTF is insufficient to meet the demand for newly constructed permanently affordable homeownership units.[86] Per-unit limits on subsidies for the development of homeownership units, program level limits on total funds available to award to developers, and some of the program's eligibility requirements are all barriers to increasing the number of affordable homeownership units constructed.

VIII. Housing Investors are Buying Up Affordable Homeownership Units

Real estate investors are buying lower-cost homeownership units to rehabilitate and put back on the market at a profit or to rent out. These investors, sometimes called "flippers," with large balance sheets and quick access to financing outcompete traditional buyers and buyers using down payment assistance programs, thereby reducing the supply of affordable homeownership units available for purchase. According to the real estate data provider CoreLogic, "In 2018, investors bought roughly 20% of US starter homes (homes priced in the bottom third of the local market) — twice that of 20 years ago. . . . In the most popular markets, they bought nearly 50% of the most affordable homes and 25% of all single-family homes."[87] Investors cannot flip homes that have been publicly funded and deed restricted for long-term affordability.[88]

2. Barriers in the BIPOC Homeownership Journey

This section provides additional information and relevant citations for the literature review of barriers to BIPOC homeownership throughout the homeownership journey.

Barriers Present Before Buying a Home

I. Income

Income is important for homeownership. Median household income for Black households is substantially lower than for white households. Income disparities nationwide are related to homeownership disparities, as those with higher incomes have higher homeownership rates.[89]

Income and educational attainment are highly correlated, and disparities exist in access to education among racial and ethnic groups. An analysis of 2019 one-year ACS data shows a difference in return on education between white households and households of color: in 2019, Black graduates had a median income of $48,000, Hispanic graduates had a median income of $45,000, Native American graduates had a median income of $43,100, and Asian graduates had a median income of $57,700, in comparison to white

graduates' median income of $58,000.[ix] According to the Urban Institute however, "although having more Black households with a college degree would likely increase Black household income and homeownership, the impact would be small and would not close the homeownership gap. Black homeownership increases with educational attainment, but a smaller share of Black households own homes relative to white households, irrespective of educational achievement."[90]

II. Debt-to-Income (DTI) Ratios

A high debt-to-income ratio (DTI) is the most common reason Black applicants are denied loans.[91] Loan applicants can see a high DTI ratio either when the price of homes is very high, when their incomes are low, or both. Even with down payment assistance, the homes in urban areas may be unaffordable for many potential homebuyers of color. Most lenders have limits on the DTI ratio that qualifies for a mortgage to ensure that the monthly mortgage payments can be paid from monthly incomes.

Most lenders prefer DTI ratios under about 36%, somewhat higher than traditional concepts of cost burdening (which occurs when a household spends 30% of its income on housing). According to a report from the Oregon Legislative Policy and Research Office, the highest DTI ratio a borrower can have and still receive a qualified mortgage is 43%. Qualified mortgages are "loans that do not have certain risky features that may contribute to the borrower's ability to repay the loan, such as interest-only periods, negative amortization, balloon payments, or terms longer than 30 years."[92]

Existing debt can also be a barrier to homeownership since it can factor into mortgage lending terms. Black students are more likely than white students to receive unsubsidized loans for education, which increases the amount of debt that Black college graduates must take on to pursue higher education. These private loans often come with fewer consumer protections and higher interest rates than federal loans.

BIPOC families and students often have less wealth to draw on than their white counterparts, making them more likely to turn to student loans to cover rising college costs. This student debt follows them into potential homeownership and impacts their debt-to-income ratio.[93] Because of structural advantages, white borrowers are able to pay down their education debt at a rate of 10% a year, compared with only 4% for Black borrowers. As a result, 15 years after they leave college, Black adults hold 185% more in student loan debt than white adults.[94]

According to the Board of Governors of the Federal Reserve System, Hispanic borrowers took out the smallest among of federal student loan money in 2019, at $30,890, in comparison to white borrowers with around $40,000 and Black borrowers with $44,800 loans on average.[95]

[ix] 2019 1-Year ACS data from IPUMS

III. Down Payments

The Urban Institute also identifies the challenge of saving for a down payment as a barrier to homeownership because of the disparities in income and wealth between households of color and white households and the gap between wages and home costs.[96]

Households who cannot buy homes, buy homes later in life, buy less expensive homes, or buy homes with more debt see less equity over time and are thus less able to pass on wealth as an inheritance to the next generation. [97]

According to a recent study by the Federal Reserve, "White families are both more likely to have received an inheritance and are also more likely to expect to receive an inheritance: about 17 percent of white families expect an inheritance, compared to 6 percent of Black families, 4 percent of Hispanic families, and 15 percent of other families. Similarly, conditional upon expecting to receive an inheritance in the future, white families expect to receive relatively larger inheritances."[98]

The Urban Institute found that smaller returns on equity for homeowners of color "meant smaller inheritances for children of color, leaving them without an important resource for first-time homebuyers."[99]

The accessibility and availability of public subsidies for down payment assistance through the Washington Housing Trust Fund and the Washington State Housing Finance Commission are generally insufficient to meet the demand for these programs. Low assistance limits available to prospective buyers, some eligibility requirements (such as income limits or credit scores), and some structural issues with how the down payment assistance programs are designed (such as requiring a traditional mortgage) are all barriers to helping move the needle on BIPOC homeownership in Washington.

IV. Low Credit Scores and Being "Underbanked"

Lack of credit and poor credit present as barriers to accessing a lower interest rate loan for many prospective buyers of color. These prospective buyers are disproportionately unbanked or underbanked and face greater challenges to building and maintaining good credit. They are effectively excluded from the lending process.

The Consumer Financial Protection Bureau (CFPB) analyzed 2019 Home Mortgage Disclosure Act (HMDA) data, finding that, on average, Black applicants had the lowest credit score of all racial and ethnic groups.[100] Researchers have found median credit scores for Black people to be 60-100 points lower than the median score for white people, on average.[101, 102] Asian people have the highest average credit scores, with an average of 745. In comparison, white people have an average of 734, Hispanic people an average of 701, and Black people an average of 677, according to recent FICO score data.[103]

The CFPB analysis also found that mortgage denial rates were higher for people of color even when credit scores were held constant.[104] "Unfortunately, Black and Hispanic borrowers continued to have fewer loans, be more likely to be denied than non-Hispanic white and Asian borrowers and pay higher median interest rates and total loan costs."[105]

Researchers at the Brookings Institute highlight how "decades of discrimination in employment, lending policies, debt collection, and criminal prosecution have left generations of Black families vulnerable to financial insecurity and negatively impacted median credit scores." In the short term, low credit scores can make it challenging or impossible to pay for immediate needs or unexpected expenses. In the long term, low credit scores can limit access to activities that can create income and wealth, such as advanced education, entrepreneurship, or homeownership. This, in turn, contributes to the growing wealth disparity between Black and white families.[106]

In addition, the most widely used version of the FICO credit score offers points when a household pays its mortgage on time but does not include on-time rent payments.[107] This has a greater impact on Black, Native, and Hispanic households, who are more often renters.

A recent Brookings Institute report identified stark disparities in access to banking institutions for Black Americans. They noted that racial discrimination and various types of market failure have led to banking and credit deserts in underserved urban and rural communities. Unbanked and underbanked rates were higher among Latino or Hispanic, American Indian, and Alaska Native households than white households and highest for Black households.[108] Today, Black households are 3 to 5 times as likely as white households to be unbanked, which causes them to be more likely to be credit invisible or unscorable, with lower credit scores on average than white households with similar incomes.[109] Black and Hispanic households are twice as likely as white households to lack a credit score.[110]

Being unbanked or underbanked can also lead to exposure to risky alternative financial services (such as payday loans) that charge higher interest rates and can trap borrowers in cycles of debt, increasing their financial vulnerability and increasing their chances of credit delinquency.[111, 112] These nontraditional credit establishments are more common in majority Black neighborhoods than in majority white neighborhoods.[113] The Center for Responsible Lending found that even in high-income, high-minority neighborhoods, there were more payday lending shops than in predominantly white neighborhoods.[114]

Prospective homebuyers of color often lack the ability to access services that are culturally appropriate or in their native language, and this barrier is higher in rural areas.

V. Cultural and Familial Differences

Some members of Oregon's communities of color have reported a lack of trust in financial institutions, with many households of color refusing to open bank accounts.[115] This distrust may also be the case in neighboring Washington. This lack of trust is the result of racist practices in the financial system, such as redlining and predatory lending practices, lack of transparency about fees, or a feeling that national banks want only certain kinds of customers.[116]

Young adults are more likely to be homeowners if their parents are. Researchers at the Urban Institute found this to be a linear relationship: "A 10 percent increase in parental wealth increases a young adult's likelihood of owning a home by 0.15 to 0.20 percentage points. Only 14 percent of millennials whose parents have a net worth below $10,000 are homeowners, but 36 percent of millennials whose parents have $300,000 or more in net worth are homeowners."[117]

The reasons for the correlation between parents' wealth and a child's homeownership are multiple. Children of homeowners may envision themselves as homeowners, may learn from their parents about the wealth-building value and importance of owning a home, and/or they may receive financial support and advice from their parents.[118]

The Urban Institute found that "the difference in parental homeownership and wealth explains 12 to 13 percent of the 24-percentage point homeownership gap between Black and white young adults."[119]

Barriers Present While Buying a Home

I. Higher Interest Rates

Black applicants are often charged higher interest rates than white borrowers (on average) after being approved for a mortgage, meaning they must devote more of their incomes toward housing costs, even when the debt-to-income ratio is not a barrier.[120] Hispanic borrowers are charged at similar rates to Black borrowers, while Asian borrowers have lower rates than white borrowers at all rates.[121]

II. Use of Alternative Mortgage Products

Black households are more likely to use alternative mortgage lending products compared to white households and are more likely to pay higher interest rates as a result.[122]

Researchers with the Urban Institute found that Black households are more likely to use FHA and Veterans Administration loans than traditional mortgage loans.[123] And according to the State of Housing in Black America Report, "Black borrowers pay significantly higher rates for FHA and slighter higher rates for conventional mortgage loans."[124] Hispanic or Latino households use FHA and Veterans Administration loans at

a similar rate to that of Black households, a rate almost 100% higher than white households in 2010.[125]

More Black applicants applied for a loan at a mortgage company (66%) than white applicants (53%), who relied more heavily on banks.[126] While there are advantages and disadvantages to working with a bank versus a broker, typically, brokers are more expensive and take longer to close than banks, costing the buyer money. However, mortgage brokers are often more able to find loan products for those with lower credit scores or other risky characteristics.[127]

III. Predatory and Discriminatory Lending Practices

Households of color are also more likely to experience predatory and discriminatory lending practices than white households. Researchers have found that "even when accounting for debt-to-income and combined loan-to-value ratios in addition to other financial characteristics, lenders were still more likely to deny people of color home loans than white applicants."[128]

Studies evaluating lending practices that control for numerous variables have shown that households of color receive a disproportionate share of subprime loans and are denied loans more often, even when controlling for various financial characteristics (such as income, debt-to-income ratios, and credit scores).[129, 130]

Researchers also found that predatory lending products are more frequently marketed to BIPOC households. These types of products include loans with high fees, high-interest rates, or terms like "pre-payment penalties, interest-only periods, negative amortization, balloon payments, or terms longer than 30 years."[131]

IV. Discrimination Based on Real Estate "Love Letters"

It has become common practice across the country for a prospective buyer to write a personal letter to the seller, attached to an offer on the home, expressing why they love the home and want to buy it. Especially in tight housing markets, this extra touch has been recommended by real estate agents who see it as a way for the buyer to stand out among other bidders. However, there is a growing concern that that these letters can and have perpetuated housing discrimination by revealing a buyer's race, religion, sexual orientation, or marital status, allowing for discrimination from sellers. Oregon passed a law in 2021 requiring seller's agents to reject "Love Letters" or other forms of personal communications, including photos, from buyers. The Oregon law was later blocked from enforcement via injunction by a federal judge who said that it likely violates the First Amendment rights of real estate agents.[132]

Barriers Present During Homeownership

I. Buying Homes Later in Life

Barriers present during homeownership can limit homeowners' ability to gain equity and generate wealth. One limiting factor facing BIPOC households is that, on average, they buy homes later in life than white households.[133, 134]

Researchers at the Urban Institute have shown that "buying a home at a younger age leads to greater wealth in retirement" and that because BIPOC households buy homes later in life than white households, they see less wealth generation over time. They found that "87 percent of white homeowners bought their first homes before age 35, compared with only 53 percent of Black homeowners. Not only are Black households less likely to buy their homes in young adulthood, 18 percent of them never own a home before turning 60 or 61."[135]

However, the age gap in purchasing a home does not fully explain the housing wealth gap between Black and white homeowners because Black households buying at the same age as white households still saw "substantially lower housing wealth than white households" by age 60 or 61.[136]

Poor housing conditions and fewer options for housing, combined with policymakers directing amenities and resources away from communities of color, have reduced property values and increased the risk of foreclosure in communities of color, which in turn diminished returns on homeownership.[137]

II. Shorter Homeownership Journeys

The Urban Institute has also found that Black households are less likely to sustain homeownership, selling their homes at earlier ages than their white counterparts.[138] "Black homeowners face a one-third to one-half probability that they will exit homeownership and return to renting, and only 6-7% of those who leave homeownership will become homeowners again." [139] Immigrants also tend to have more difficulty sustaining homeownership, and US citizenship appears to lower exits from homeownership.[140] "Black and Hispanic/Latino households are [also] less likely to sustain homeownership. Less than half of homeowners of color with low income remained homeowners within four years of becoming a homeowner, compared with 60% of white homeowners with low income."[141]

More Black homeowners sell their homes and transition back to rental housing before age 60 or 61 than do white homeowners, cutting short their homeownership journey and their ability to gain equity. [142] The Urban Institute found that "Black households who sustained their homeownership had more than $23,500 higher housing wealth at ages 60 and 61 than Black households who moved from owning to renting during their lives."[143]

Researchers identified two reasons why Black homeowners exit homeownership earlier. First, Black homeowners tend to have fewer family members who can help when finances are tight, and in fact, those homeowners are often the ones helping other family members in need. Secondly, the decline in sustained ownership is a recent phenomenon, starting in the 1990s, suggesting that it signaled a shift from Black households being excluded from the housing market to one where Black prospective homeowners were seen as a lucrative opportunity for moneymaking from lenders and others in the real estate market to take advantage of, often offering products that were unsustainable.[144]

Barriers Present When Selling a Home

I. Discriminatory Appraisals

Research has shown that appraisers sometimes value BIPOC-owned homes lower than those owned by white families, even when the homes have similar amenities. A recent Redfin analysis of value estimates for more than 7 million homes that were listed and sold from 2013 through February 2021—accounting for the fundamental factors that contribute to a home's value, such as size, condition, neighborhood amenities, and schools—found that the average home in a primarily Black neighborhood nationwide is worth $46,000 less than a comparable home in a primarily white neighborhood.[145] "For appraisals in majority-Latino tracts, 15.4% were valued lower than the contract price. For both Black and Latino areas, the percentage of undervalued appraisals increased as the white population percentage decreased."[146]

In addition to discrimination in individual appraisals, homes located in majority-Black neighborhoods have been chronically undervalued.[147] When Black households sell their homes, research has found that homes of similar quality in neighborhoods with similar amenities are valued 23% less in neighborhoods where half the population is Black compared to neighborhoods with few or no Black residents, even after adjusting for housing quality and neighborhood quality.[148] "Using Census Bureau data from 1980-2015, the study from Junia Howell and Elizabeth Korver-Glenn shows that during that period, homes in white neighborhoods appreciated in value, on average, almost $200,000 more than comparable homes in neighborhoods of color."[149]

One family's experience showed that replacing photos of their Black family with photos of white friends resulted in a second appraisal being much higher, with otherwise no change to the house.[150]

II. Less Equity to Pass On

This all suggests that BIPOC households fall behind in their journey to building equity and future wealth and lowers their ability to pass on inheritances, which are helpful for the next generation to use as a down payment or invest in other areas of their lives, such as education or small businesses. [151, 152]

3. Crises Disproportionately Affect BIPOC Homeownership

During economic downturns, people of color experience higher unemployment rates than their white counterparts and are more likely to lose wealth, which has a negative impact on homeownership.[153]

2008 Housing Crisis

Researchers at the Urban Institute found that middle-aged Black households are the cohort that has lost the most ground on homeownership over time, with their homeownership rate declining 9% from 2001 to 2016—six percentage points higher than the 3% decline experienced by middle-aged white and Hispanic families. [154] "Having lost their homes during the 2008 crisis, these Black households find themselves unable to move back into homeownership; in addition, they have experienced a huge blow to their personal balance sheet and wealth that will be difficult to recover as they approach retirement age."[155]

The Urban Institute has also found that the "homeownership gap between people of color and white people often worsens amid a recession because people of color are disproportionately harmed" and that "structural barriers producing wide and persistent disparities in homeownership also make homeowners of color more vulnerable to loss of home and wealth."[156]

There is an ongoing impact to credit histories from defaults on predatory loans during the Great Recession.[157]

In the recovery from the housing crisis, the Urban Institute found that "Black and Hispanic households have been disproportionately affected by overly tight mortgage lending standards," accounting for a large share of mortgages that were not originated due to tight lending requirements in the 2009-2015 recovery period. During this time, researchers estimated that "loans to Black and Hispanic borrowers declined by 50 percent and 38 percent respectively, compared with a 31 percent decline for white borrowers."[158]

COVID-19 Crisis

In its recent report on crises impacting BIPOC homeownership, the Urban Institute also found that Black families are at greater risk of contracting and/or dying from the COVID-19 virus.

More than half of Latino and nearly half of the Black survey respondents reported experiencing an economic challenge because of the pandemic in comparison to only 21% of white respondents. Both Black and Latino respondents reported pandemic-related mental health concerns at a rate 10 points higher than whites.[159]

The federal government's first COVID-19 relief package gave relief only to employer firms, which disproportionately excluded Black businesses, as 95% of Black-owned firms are nonemployer businesses.[160] "An analysis of PPP loans by ZIP code by the Associated Press found that 'thousands of minority-owned small businesses' were among the last to receive loans during the first two rounds of funding."[161]

COVID-19, like the 2008 Housing Crisis and Hurricane Katrina, has disproportionately negatively impacted families of color economically, potentially because their households are already more vulnerable entering the cyclical downturn.[162]

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