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“Why is Black American Homeownership Constrained?”

It is common knowledge that Black Americans’ homeownership rate (45.3%) lags far behind the US homeownership rate (65.8%).¹

This is a complex inequality because becoming a homeowner is contingent upon numerous factors to include, but not limited to: (1) The financial wealth one has; (2) the income one earns; (3) homes’ sales prices; (4) one’s willingness and ability to relocate to ensure alignment of the foregoing factors so that homeownership can occur; and (5) an acceptable credit score. However, probably the two most important fundamental factors in determining homeownership are homes’ sales prices and household income. What we intend to show is that these two factors misalign persistently and obstruct Black Americans’ pathway to homeownership.

Our partial analysis of this topic concerns homeownership through a mortgage lens. In this case, a home purchase is conducted through a Federal Housing Administration (FHA) insured loan that reflects a loan-to-value ratio of 90 percent, reflects the going 30-year mortgage interest rate, and can be approved under the Total Mortgage Payment to Effective Income (PTI) Ratio, which is 31%.² FHA loans provide one of the most important and favorable doorways to homeownership for those who may not qualify for conventional mortgages.

We focus mainly on income and sales price because: (1) Down payment requirements may be met using means unrelated to existing wealth or income; (2) sales prices usually adjusts inversely to variations in interest rates—not vice-versa; (3) the 31% PTI Ratio is linked directly to income; (4) if location prohibits a home purchase (i.e., it is impossible to earn sufficient income and housing prices are out of reach in a location), then prospects for homeownership disappear; and (5) as with the previous item, we assume that a prospective home purchaser’s credit score is acceptable, otherwise a mortgage will not be extended.

¹ These homeownership rates are for the second calendar quarter of 2022. See the St. Louis Federal Reserve Board’s FRED database; <https://fred.stlouisfed.org/> (Ret. 100522).

² The FHA’s 203(b) program provides mortgages to those who may not be able to obtain conventional mortgages. Standard FHA mortgages require a down payment that is 10 percent of the sales price when applicants carry a credit score as low as 500. As a key determinant of eligibility, the 31% PTI ratio uses a total mortgage payment that includes mortgage principal and interest, real estate taxes, hazard insurance, and mortgage insurance. Income may originate from a variety of sources, but it must align with FHA guidelines.

Table 1 presents data on: (1) Monthly median and mean household income of Black Americans for the years 2001–2021; (2) the average price of homes sold in the US; (3) average 30-year fixed rate mortgage interest rates; (4) based on the sales price, estimated total monthly mortgage payments that reflect principal and interest, real estate taxes, hazard insurance, and mortgage insurance; and (5) income shortfalls that Black Americans experience with available median and mean household income. The just-mentioned income shortfalls are calculated by subtracting the estimated total mortgage payment (column 5) from median and mean household income (columns 1 and 2, respectively).

Table 1.—Median and Mean Household Income Shortfalls for Black Americans

Year	(1) Median Monthly Household Income	(2) Mean Monthly Household Income	(3) Average Price of Homes Sold	(4) Interest Rate for 30-Year Fixed Rate Mortgages	(5) Estimated Total Mortgage Payment	(6) Household Income Shortfalls for Mortgage	
						Median	Mean
2001	\$2,456	\$3,271	\$173,100	6.97%	\$1,255	-\$493	-\$241
2002	\$2,419	\$3,334	\$186,025	6.54%	\$1,301	-\$551	-\$267
2003	\$2,470	\$3,344	\$192,125	5.83%	\$1,267	-\$501	-\$230
2004	\$2,508	\$3,386	\$218,150	5.84%	\$1,438	-\$660	-\$388
2005	\$2,572	\$3,538	\$236,550	5.87%	\$1,561	-\$764	-\$464
2006	\$2,664	\$3,761	\$243,750	6.41%	\$1,689	-\$863	-\$523
2007	\$2,826	\$3,886	\$244,950	6.34%	\$1,687	-\$811	-\$482
2008	\$2,852	\$3,878	\$229,550	6.03%	\$1,544	-\$660	-\$341
2009	\$2,715	\$3,837	\$215,650	5.04%	\$1,336	-\$494	-\$146
2010	\$2,677	\$3,746	\$222,700	4.69%	\$1,336	-\$506	-\$175
2011	\$2,686	\$3,938	\$224,900	4.45%	\$1,325	-\$492	-\$104
2012	\$2,777	\$3,978	\$244,400	3.66%	\$1,335	-\$474	-\$102
2013	\$2,944	\$4,205	\$266,225	3.98%	\$1,496	-\$583	-\$192
2014	\$2,950	\$4,269	\$285,775	4.17%	\$1,631	-\$717	-\$308
2015	\$3,075	\$4,529	\$294,150	3.85%	\$1,630	-\$677	-\$226
2016	\$3,291	\$4,787	\$305,125	3.65%	\$1,658	-\$638	-\$174
2017	\$3,280	\$4,836	\$322,425	3.99%	\$1,804	-\$787	-\$305
2018	\$3,447	\$4,889	\$325,275	4.54%	\$1,919	-\$851	-\$404
2019	\$3,787	\$5,546	\$320,250	3.94%	\$1,789	-\$615	-\$70
2020	\$3,835	\$5,647	\$336,950	3.11%	\$1,739	-\$550	\$12
2021	\$4,025	\$5,909	\$396,800	2.96%	\$2,003	-\$755	-\$171

Sources: Various statistical sources³ with BlackEconomics.org estimation.

³Statistics on Black household income are from the Census Bureau; <https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html>, Table H-5 (Ret 100522). Data on the average (median) price of homes sold are from the St. Louis FED's FRED; <https://fred.stlouisfed.org/series/MSPUS#0> (Ret. 100522). Mortgage interest rates are from the St. Louis FED's FRED; <https://fred.stlouisfed.org/series/MORTGAGE30US#0> (Ret. 100522). The estimated total mortgage payment is the sum of the following components: (1) Principle and interest estimated using Microsoft EXCEL's PMT Function and the relevant aforementioned statistics (interest rates, a loan amount equal to 90% of the average home sales price, and a 30 year (360 payments) duration); (2) real estate taxes are estimated as 1.1% of the home sales price as suggested by the Motley Fool, which is the average mill rate for the US, <https://www.fool.com/research/property->

The table's two right-most columns show that Black American median and mean household incomes over the last 21-years were insufficient to secure a standard FHA mortgage with one exception—mean income in 2020.⁴

Given these results, it becomes crystal clear that at least one-half of Black American households (the 50% below the median income level), and many more (with income above the median but below the mean) are likely unable to secure a standard FHA home mortgage. Also, certain Black Americans with household incomes at and above the mean may not qualify for FHA mortgages.

It is important to keep in mind that this analysis is based primarily on income and homes' sales prices alone and does not account for other factors that determine whether a home mortgage is awarded, including households' other fixed payment obligations and credit scores.

Black America's less than 50% homeownership rate is emblematic of how the entire US socioeconomic system has evolved to constrain various opportunities.⁵ However, if Black Americans choose to remain in the US socioeconomic system and work diligently and persistently to counteract it, then we can certainly raise our homeownership rate.

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[tax-rates-by-state/](#) (Ret. 100622); (3) hazard insurance statistics are from Statista for 2001-2019 with trend projections for 2020 and 2021; <https://www.statista.com/statistics/216515/average-premiums-for-homeowners-insurance-in-the-us/> (Ret 100622); and (4) a monthly mortgage insurance premium is estimated using EXCEL's PMT Function as described earlier in this footnote, but the loan amount is 175 basis point of the home loan amount—the cost of mortgage insurance. These procedures for estimating a total mortgage payment are available from the US Department of Housing and Urban Development's (HUD's) Handbook 4000.1; <https://www.hud.gov/sites/documents/40001HSGH.PDF> (Ret. 100522).

⁴ Admittedly, some of these households may have been able to secure FHA home mortgages under special programs and by other means.

⁵ It is important to emphasize that “socioeconomic” is a compound word. Therefore, economic factors alone are not responsible for the full extent to which Black American homeownership is constrained. We must also account for social factors. For example, we must admit that one important reason for the low level of Black American household income is the outsized rate of single-headed households. If there were more two-headed households, then household income would likely rise and enable a higher homeownership rate.