

A bridge linking housing research and practice

Volume 2, number 4



Summary of March 2004 Fair Housing Research and Policy Forum

At the forum, practitioners discussed fair housing issues and visited the HUD USER exhibit to learn about the latest research available from HUD.

From time to time, HUD's Office of Policy Development and Research likes to reach out to our constituents in the research and practitioner communities, and to learn from those who work with our publications and Clearinghouse on a regular basis. One such effort was last year's National Fair Housing Research and Policy Forum. Co-sponsored by The City University of New York (CUNY) and the U.S. Department of Housing and Urban Development (HUD), the Forum was held in Washington, D.C. on

March 12 and 13, 2004. Its aim was to foster discussion about the following three questions:

1. Given what we now know, what additional fair housing research and evaluation is needed? How can we better understand the changing patterns of discrimination in order to improve programs?
2. What are the major program and policy implications of this research?
3. What is it that you, your organizations, and your communities can do to best transform the ideas generated at this conference into actions that address the fair housing needs in your community?

The Forum brought together speakers from groups such as the National Academy of Sciences, the Urban Institute, the National Association of Realtors, the Heritage Foundation, the Leadership Conference on Civil Rights, the American Enterprise Institute for Public Policy Research, the National Fair Housing Alliance, the Mortgage Bankers Association, and the National Association of Home Builders. This diverse group of advocates, researchers, and practitioners exchanged information and opinions as they sought to better understand the current state of fair housing

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in the United States, and to describe the need for changes in policy and additional research.

The Forum brought some emerging themes to light, some of which are addressed elsewhere in this issue. These themes included:

- African Americans, Hispanics, and Asian and Pacific Islanders (APIs) face comparable levels of discrimination, but the patterns of discrimination are distinctive for each group.
- Discrimination has significantly declined toward African Americans in the sales and rental market and for Hispanics in the sales market. There was no change in the 1990s for Hispanics in the rental market.
- Minority homeownership is increasing.
- African Americans and Hispanics receive less favorable treatment when requesting information from a lender, but the *patterns* of difference depend on location.
- Methods of discrimination may change in the coming years. Lending transactions are changing rapidly. Discrimination is increasingly likely to occur before any face-to-face encounter. It may occur after an application has been submitted.
- The public generally knows about and supports fair housing laws that protect against refusal to rent or sell a home to a person because of that person's race. There is considerably less knowledge of, and support for, protection of families with children.
- Few people who feel they have been discriminated against do anything about it.
- Whites and nonwhites have vastly different perceptions of the root causes of inequality. Nonwhites are more likely to see structural barriers as underlying causes of inequality.
- Anti-minority stereotypes remain common among whites for African Americans and Hispanics. There also appears to be a trend toward negative stereotyping of APIs.
- Minority groups who are unable to purchase homes and accumulate equity are deprived of a significant source of monetary advantage.
- African Americans remain, arguably, the most disfavored group for fair housing. They are more likely to live in segregated neighborhoods, and have more difficulty translating economic gains into better neighborhoods. Still, complaints filed by African Americans have declined.

- A growing number of neighborhoods are integrated; however, most new integration occurs between whites and Hispanics or APIs, rather than whites and African Americans. Many whites still prefer all-white neighborhoods.
- Discrimination against persons with disabilities can often be blatant.
- Compliance with legal accessibility requirements needs improvement.
- In order to improve the compliance rate in multi-family buildings, it is important that local building plans integrate legal accessibility requirements.

Ideas for Further Research

Participants generally agreed that audit studies are very strong measures of the level of discrimination and need to be continued. Given the cost of another national Housing Discrimination Study, there was some debate as to whether it should be conducted again in 2010, or if smaller, more targeted audit studies should be conducted instead. Those smaller studies might include measuring discrimination that occurs during telephone or Internet inquiries, whether the type of lender or a lender's ethnic or racial identity impacts discrimination, discrimination against Native Americans in rural areas, and discrimination against non-English-proficient Hispanics. There was also interest in studies that document the characteristics of stably integrated neighborhoods.

Participants identified a number of fair lending questions, including:

- Why are minority applicants more likely to end up with subprime loans than similar white applicants?
- In addition to the number of people whose homes are actually foreclosed and sold at auction, how many lose or may lose their homes but are not identified? To what degree does this reflect predatory lending, and does it occur at rates that are racially disproportionate?
- Has public policy promoting homeownership exacerbated the foreclosure problem?
- What rule of evidence should be used to differentiate between intentional discrimination and actions with valid economic purpose that happen to have disparate impact?

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HUD Reports on Housing Discrimination in Metropolitan America

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The Fair Housing Act of 1968 outlawed what was then a common occurrence: discrimination by landlords, real estate agents, property owners, and managers based on a homeseeker's race or ethnicity. Housing discrimination denies minorities free and full access to homes and apartments they can afford, raises the costs of housing searches, creates barriers to homeownership, and contributes to the perpetuation of racial and ethnic segregation (Yinger, 1995).

Since the 1970s, the U.S. Department of Housing and Urban Development has pioneered the development and use of paired testing to systematically and rigorously measure discrimination in the nation's housing markets. In a paired test, two individuals—one white and one minority—pose as equally qualified homeseekers and separately visit real estate or rental offices to inquire about the availability of homes or apartments that have recently been advertised. Because their inquiries and their qualifications are the same, the two testers should receive comparable information about housing availability and terms.

HUD recognized the potential of the paired testing methodology as a research tool at a time when it was just emerging as an investigative and enforcement strategy. The 1977 Housing Market Practices Study provided powerful evidence of the prevalence of discrimination against African-American homeseekers (Wienk et al, 1979), and helped build the case for strengthening the enforcement of federal fair housing protections in the 1988 Fair Housing Act Amendments. The 1989 Housing Discrimination Study extended those initial national estimates to cover Hispanics.

In 2000, HUD contracted with the Urban Institute to launch the third and most ambitious of its national paired testing studies. The Housing Discrimination Study 2000 (HDS 2000) was designed to measure change in the incidence of discrimination against African Americans and Hispanics, to document the extent of discrimination against Asian and Pacific Islander (API) homeseekers nationwide, and to produce the first rigorous estimates of discrimination against Native Americans seeking housing outside of native lands. Those findings are described in the report series titled *Discrimination in Metropolitan Housing Markets*. The Phase 1 report documents the level of discrimination faced by African Americans and Hispanics when they inquire about units for sale or rent. This report describes the changes in discrimination since 1989, and provides

estimates of discrimination for more than 20 metropolitan areas. The Phase 2 report presents the first-ever estimate of the level of discrimination experienced by APIs. The level of housing discrimination experienced by Native Americans when they search for housing in the metropolitan areas of Minnesota, Montana, and New Mexico is described in the Phase 3 report.



From the summer of 2000 through the spring of 2003, local fair housing organizations in 45 metropolitan areas nationwide conducted more than 7,000 paired tests. These tests directly compared the treatment that African Americans, Hispanics, APIs, and Native Americans receive to the treatment that whites receive when they visit real estate or rental offices to inquire about available housing.

Findings from HDS 2000 provide the most complete and up-to-date information available about the persistence of housing market discrimination against minority homeseekers in the United States. It also shows the progress we've made in combating discrimination during the past decade.

The HDS studies provide estimates of discrimination for individual treatment measures. An example of an individual treatment measure is whether a minority tester is more likely to be told that no units are available

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Linda Taylor welcomes potential first-time homebuyers as they enter the monthly homebuyer education seminar offered by the Urban League of Metropolitan Seattle (ULMS). The students taking part in the “Why Rent When You Can Buy?” seminar are excited at the prospect of being able to buy and live in their own homes. They know that homeownership counseling is the first step toward receiving the assistance they need to achieve that goal. Some participants have never lived in a family-owned home. Many are nervous about buying a home, but are taking the class so they’ll know what to expect.

Seminars like this one are a common requirement of participating jurisdictions (PJs) that administer HOME-funded homebuyer programs, as described in *Study of Homebuyer Activity through the HOME Investment Partnerships Program*. In this study, published by the HUD’s Office of Policy Development and Research in December 2003, 77 percent of homebuyer programs funded with HOME funds required homeownership counseling. A substantially higher percentage of homebuyer programs either required or generally provided counseling.

Counseling as an Element of Homebuyer Programs

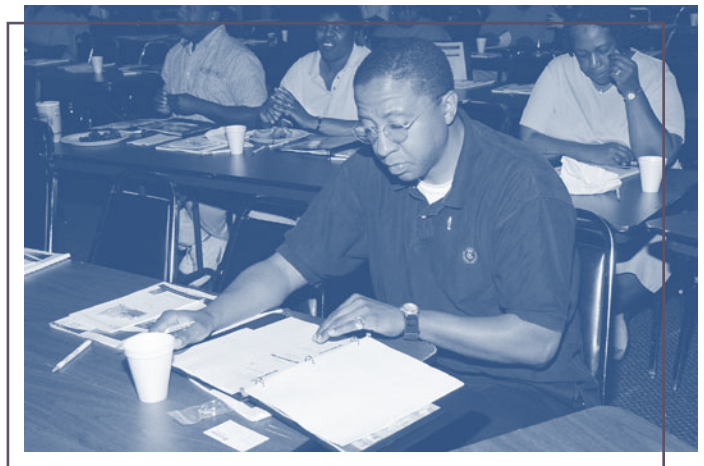
The *Study of Homebuyer Activity through the HOME Investment Partnerships Program* gathered information on how PJs structured their homebuyer programs. The study drew on four main data sources: administrative data from HUD’s Integrated Disbursement and Information System (IDIS), a mail survey to all PJs resulting in a 92 percent response rate, a semi-structured interview with representatives of 60 PJs, and detailed information from a representative sampling of homebuyers.

The study draws several conclusions about the use of homeownership counseling in HOME-funded homebuyer programs. Homeownership counseling tends to be pre-purchase homebuyer education. Counseling typically takes place before the buyer is approved to receive HOME assistance, with approximately half of the programs offering a combination of group seminars and one-on-one counseling, which PJ representatives and counselors agree is the optimal approach. More than half of the programs offer six hours or more of counseling. In 81 percent of homebuyer programs, counseling is provided by a local partner organization that, in some cases, is certified by HUD’s Certified Housing Counseling Program, by NeighborWorks America

(formerly known as the Neighborhood Reinvestment Corporation), or by a state housing finance agency.

The Urban League of Metropolitan Seattle

Washington is one of the states in which the state housing finance agency certifies instructors from numerous local organizations to teach homebuyer education seminars. The Washington State Housing Finance Commission (WSHFC) uses class materials provided by HUD and Fannie Mae, and allows local organizations to tailor the curriculum to suit their particular needs.



Participants at a first-time homebuyers seminar provided by ULMS.

With WSHFC-certified instructors, the ULMS offers “Why Rent When You Can Buy?”, a five-hour seminar that covers all aspects of purchasing a home. Conceptual topics address the advantages and disadvantages of homeownership, mortgage myths, and the terminology used in the homebuying process. The seminar also identifies and explains the steps in the pre-approval and mortgage processes, including qualifying, underwriting, and closing. Participants learn about house prices, types of lenders, what to expect when meeting with lenders, income and assets, types of loans, creative financing, predatory lending, and their rights under the Fair Housing Act.

Because the seminar addresses such a range of topics, ULMS strongly encourages participants to attend its two-hour seminar on credit, “Your Credit and Your Budget,” which is offered the following week. In addition, ULMS teaches a monthly Home Club seminar. This seminar, a combination of structured and open

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format discussion, expands on the topics covered in the homebuyer education seminar.



Participants applaud a guest speaker at a ULMS first-time homebuyer seminar.

After completing the seminar, participants receive a certificate that's required to receive affordable housing assistance. The certificate is valid for two years. While that seems like a long time, ULMS has found that many prospective homeowners need the two-year timeframe. During that time, they can attend additional seminars and one-on-one counseling before purchasing a home. For some households, the time is also put to good use in improving their credit rating, so that they can qualify for a loan or for better rates on a loan. According to Linda Taylor, Director of Housing for ULMS, 20 people typically attend each month. Approximately 200 people

completed the seminar in 2004. During the same year, 31 households purchased a home. Nearly all of these homebuyers completed the seminar in 2003, rather than in 2004, demonstrating the need for the certificate's two-year validity.

Receiving a certificate from a homebuyer education seminar is one of the first steps required for participation in any of the homebuyer programs sponsored by local organizations, such as the City of Seattle. The City of Seattle provides funding, comprised of HOME and other funds, to several non-profit and for-profit organizations for use in developing affordable homeownership opportunities in Seattle.

Conclusion

The ULMS homebuyer education seminar is one example of how homeownership counseling is tied to the purchase of affordable housing. Counseling is a common component of programs supported by HOME funding. HUD's study found that 92 percent of urban PJs typically require or provide counseling. Moreover, the study found that 89 percent of all homebuyer programs target or restrict programs to first-time homebuyers, 70 percent conduct credit reviews, and 57 percent screen for the availability of buyer cash.

To obtain a copy of the *Study of Homebuyer Activity through the HOME Investment Partnerships Program*, visit www.huduser.org or call 1.800.245.2691. ULMS posts information about their homebuyer education seminars at www.urbanleague.org/programs.html. **HLI**

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- How can we quantify the effects of clusters of foreclosures and forced sales on neighborhoods, especially in minority neighborhoods?
- Under what circumstances could a locality (or the Secretary of HUD) initiate affirmative fair housing litigation against a particular lender where the pattern of foreclosures manifests a racial dimension?

Recent research on public attitudes and knowledge of fair housing raised a number of additional research questions, such as:

- Why do some who experience discrimination take action while others do not?
- What has been the efficacy of public education programs over time?
- How do members of the public assess the costs and benefits of taking action when they believe they have been discriminated against?

The Forum generated a number of suggestions on how to better measure multifamily building conformance with the Fair Housing Accessibility Guidelines. For those wishing additional information, CUNY is in the process of preparing a book that will feature papers and discussion summarizing this important event. **HLI**

HUD's Income Limits: Meaning, Methodology, and Applications

Each year, HUD's Economic Market Analysis Division (EMAD) sets income limits to determine who qualifies for HUD's assisted housing programs. This past month, EMAD released the 2005 median family income (MFI) estimates and corresponding income limits.

Since the federal government established public housing in the 1930s, housing programs have had income limits for eligibility. Income limits ensure that those who are most in need of public assistance are receiving it. Because both incomes and housing costs vary within the U.S., both income limits and the MFIs upon which they are based are calculated for each of 356 metropolitan areas and 2,302 non-metropolitan counties. This involves extensive number crunching and careful analysis of evolving market conditions. Our colleagues in EMAD take their work very seriously, as they are well aware that their calculations and analyses affect the lives of thousands of American families. In this article, *ResearchWorks* offers a glimpse inside EMAD's "black box" to show you how HUD's income limits are calculated.

Determining MFI

The process begins by estimating MFI for each area. In arriving at this estimate, HUD takes income distributions from the last decennial Census (2000) and uses more recent data from the Current Population Survey (CPS), the American Communities Survey (ACS), and the Bureau of Labor Statistics to estimate state- and county-level changes since the last Census. For FY 2005, the estimated MFI for the U.S. is \$58,000. At the state level, however, the MFI ranges from \$36,100 in non-metropolitan Mississippi to \$77,400 in the metropolitan areas of Connecticut.

From FY 2004 to 2005, 90 percent of the 2,658 metropolitan and non-metropolitan areas experienced MFI increases of no more than 5 percent. However, 27 areas, or 1 percent, experienced increases ranging from 10 to 20 percent.

Determining Income Limits Based on MFI

The U.S. Housing Act of 1937, which first set the policies defining low and very low incomes, continues to serve as the statutory basis for income limits. Its policies can be summarized as follows:

- A family has a *low income* if its aggregate incomes do not exceed 80 percent of the MFI for the area in which it lives.
- A family has a *very low income* if its income does not exceed 50 percent of the MFI for the area in which it lives.
- A family has an *extremely low income* if its income does not exceed 30 percent of the MFI for the area in which it lives.
- Income limits are adjusted for family size.
- Income limits are adjusted for areas with unusually high or low family income, or housing-cost-to-income relationships.

There are two other sources of adjustment:

- Income limits are held at the previous year's levels for areas where they would otherwise be decreased because of fair market rent (FMR) reductions.
- Income limits are never set below the limits that would result from using the state non-metropolitan MFI.

The table below shows how often each adjustment was used in determining the FY 2005 limits.

Summary of Income Limit Determinations for FY 2005 Very Low Income Limits

	Income Limit Calculation	Non-Metro Counties	Metropolitan Areas
1.	Limits based on 50% of local MFI	802	258
2.	Limits based on state non-metropolitan MFI level	1339	39
3.	Limits increased to the amount at which 35% of a 4-person family's income equals 85% of the 2-bedroom Section 8 FMR	0	7
4.	Limits decreased to the greater of 80% of the U.S. MFI or the amount at which 30% of a 4-person family's income equals 100% of the 2-bedroom FMR	0	1
5.	Limits maintained at FY 2004 level if they would otherwise be decreased by Census re-benchmarking or reductions in FMRs	161	51
	TOTALS	2302	356

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Applying Income Limits

HUD income limits apply not only to the Section 8 and Public Housing programs, but also to several other federal programs within and outside of HUD. These include Housing Choice Voucher, Community Development Block Grants (CDBG), HOME, the Department of Treasury's Low-Income Housing Tax Credits and Tax-Exempt Rental Housing Bonds, the Department of Agriculture's Rural Housing program, and

the Veteran Administration's disability income support. In some of these cases, programs link their eligibility limits to the Section 8 limits. The complete list of programs with eligibility limits thus determined can be found in the *FY 2005 Income Limits Briefing Materials*, publicly available at www.huduser.org/datasets/il/il05/BRIEFING-MATERIALS.pdf. A list of the recently released 2005 income limits can be downloaded at www.huduser.org/datasets/il/il05/index.html. **HJI**

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to rent. The studies also provide an overall measure of the extent of discrimination. Two composite measures of the overall level of discrimination were developed for the HDS studies. One measure, the *hierarchical net estimate of discrimination*, is very compelling as a clear indication of discrimination. This measure is based on very conservative assumptions, however, and thus likely understates the overall level of discrimination. The other composite measure reflects the extent to which the white tester was consistently favored across all treatment measures relative to an equally qualified minority tester inquiring about the same unit.

An example of this composite measure would be if the white tester was favored on one or more of 14 treatment measures and the minority tester was favored on none. This "consistently favored" measure is presented as the best estimate for the current level of discrimination.

The consistently favored composite measure supports the authors' conclusions that:

- Between 1989 and 2000, the incidence of discrimination against African Americans declined significantly, in both rental and sales markets nationwide;
- The incidence of discrimination against Hispanic homebuyers also declined, but no significant change occurred for Hispanic renters;
- Levels of discrimination against African American and Hispanic homeseekers still remain unacceptably high; and
- APIs face comparable levels of adverse treatment nationwide relative to African Americans and Hispanics, and Native American renters may face even higher rates of discrimination than other groups (based on evidence from three states).

Although overall composite measures are useful for estimating how big the problem of discrimination is, the authors suggest that policymakers and practitioners should focus on individual treatment measures to develop strategies for reducing discrimination.

In the rental market, the most frequent form of discrimination against African Americans, Hispanics, and Native Americans is denial of information about available housing units. This is a critically important form of discrimination because it so clearly limits the housing options from which minority homeseekers can choose. The opportunity to actually inspect available units also represents an extremely damaging form of discrimination.

Patterns of discrimination look quite different in metropolitan sales markets. African-American homebuyers still face some discrimination with respect to information about available homes and opportunities to inspect homes. In addition, agents sometimes steer African-American customers to homes in less predominantly white neighborhoods, provide less information and assistance with financing, and offer less encouragement overall. Hispanic homebuyers also face some discrimination with respect to obtaining information about available homes. The major obstacle they face appears to be a lack of assistance with financing compared to equally qualified white testers. Finally, API homebuyers face high levels of discrimination with respect to information about available homes, opportunities to inspect homes, and assistance with financing.

All three phases of HUD's *Discrimination in Metropolitan Housing Markets* report are available as free downloads at www.huduser.org/publications/hsgfin/hds.html or in print for a nominal charge by calling 1.800.245.2695, option 4. **HJI**

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In the Next Issue of... ^{research} **works**

- The City of San José, California, received the annual "HUD Secretary's Opportunity and Empowerment Award" on March 22, 2005 during the American Planning Association's annual meeting. The award recognizes excellence in planning that has led to measurable benefits in terms of increased economic, employment, education, or housing choice. San José responded to challenges caused by rapid growth to produce more than 6,000 affordable housing units during the past five years. We'll look at some of the key players and how they achieved this success.
- A geographic information system (GIS) can display multivariate data in meaningful, instantly understandable ways. Three articles explore the current state of GIS:
 - HUD collaborated with the U.S. Department of Interior, Geological Survey (USGS) and Mexican partners to create a bi-national Internet-based Geographic Information System (GIS) for four sister cities along the U.S./Mexico border. The system provides statistical and spatial analysis tools to plan for future growth scenarios, estimates infrastructure development costs for the *colonias*, and supplies bi-national demographic census data for economic growth models.
 - MapStats, which can be accessed through HUD USER, provides national, state, and county-level information, including housing data. We'll discuss how to use MapStats to locate the information you need.
 - HUD USER offers GIS data sets. We'll discuss ways that these data can be used, or combined with other data, to produce maps that show development patterns, density, and other housing data. These maps can help housing organizations identify needs in communities.

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