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Exclusionary federal mortgage lending widened racial wealth gap in the US

During a period of homeownership expansion in the post-World War II era, U.S. federal mortgage lending practices were biased against Black borrowers, according to a new study published in Nature.

Coauthored by researchers from UC Santa Barbara, New York University and the University of Virginia, the work represents the first national-level analysis of home-loan programs headed up by the Federal Housing Administration (FHA) and the Veterans Administration (VA) in the 1930s and 1940s.

From 1935–1947, the researchers found, only 2% of FHA loans and 5% of VA loans went to Black borrowers; at the time, this demographic group made up 10% of the U.S. population and 10% of veterans. The discrepancies preceded the widening of the racial wealth gap throughout the country.

“Over the last four years, our team has been working with archival records to uncover new data on individual federal mortgage guarantees and what types of households received these guarantees,” said coauthor Wenfei Xu, an assistant professor of geography at UC Santa Barbara. “Hopefully the first of many, this paper provides clear evidence that the FHA and VA disproportionately excluded Black households during a crucial period of homeownership expansion in the U.S. Because housing lasts a long time, these policies had long-lasting consequences on racial wealth inequality that continues today."

"For the majority of American families, homeownership has been the primary engine for building wealth, and these federal programs set millions of families on that path," added Katherine Thomas, an NYU doctoral student and the paper's primary author. "Our data show just how few Black households had access to the same opportunity to start building intergenerational wealth."

The research team, which included UV doctoral student Thomas Storrs and NYU sociologist Jacob Faber, also found that lending to foreign-born borrowers was comparable to their proportion of the U.S. population at the time. Making up just over 9% of the U.S. population, they received 10% of FHA loans and received just over 2% of VA loans — a proportion nearly identical to their makeup of the veteran population during the studied period.

"Our research shows that European immigrants benefited from the FHA and VA programs at rates similar to native-born White Americans," Storrs said. "In contrast to the Black-White divide, we did not find differential outcomes correlated with nativity in federal programs around WWII."

Previous studies have recounted instances of discriminatory practices or focused on a small number of cities. The new Nature study included 38 states, considered a larger number of loans than did earlier analyses and examined VA lending data, which hadn't been previously available on an individual-loan level. In their work, the researchers digitized more than 100,000 paper records of mortgages insured by the FHA and the VA and then matched them to U.S. Census records.

"These historical inequities have real implications for our present time through the intergenerational transfers of wealth through housing," said Xu. "Any new housing policy should not only consider who it helps now, but what it sets in motion 50 years later."

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