

The Great Recession, Education & Home Ownership

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The Great Recession was associated with a dramatic reduction in the wealth of millions of Americans, particularly wealth in the form of home equity. The net worth of the typical household plunged by 40 percent, or about \$50,000, as a result of the worst economic downturn since the Great Depression.¹ Of course, these detrimental effects were not felt equally by all groups. Relative to whites, black wealth was hit especially hard by the Great Recession. Blacks saw their median net worth fall precipitously compared to whites (that is, in percentage terms, not in absolute terms).² Between 2005 and 2009, the median net worth of black households dropped by 53 percent, while white household net worth dropped by 17 percent.³

Yet, whether we look at the racial wealth gap before or after the Great Recession, the disparity between blacks and whites is persistent. According to the Survey of Income and Program Participation, in 2005 blacks had relative holdings of nine cents on the dollar compared to whites - this fell to just five cents in 2009, and inched up to six cents in 2011. In this sense, the Great Recession did not wipe out black wealth, but the very modest bit of wealth accumulated by blacks was decimated by the Great Recession. While the economy continues to recover, and some point to recent increases in the home ownership, we are alarmed by evidence that black college graduates may be falling even further behind in this new paradigm.⁴

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Firstly, we find that long standing racial disparities in homeownership have worsened in the post-recession recovery. Second, in particular, we find that the Great Recession left blacks with a college degree facing enhanced barriers in the housing market. While a bachelor’s degree is often framed as a reliable stepping stone on the path to economic security, our findings add to a growing literature that challenges that accepted wisdom. Research by Hamilton, et al. finds that while black households where the head earned a college degree have less wealth than white households where the heads dropped out of high school.⁵

In particular, we use the Blinder-Oaxaca decomposition technique, to demonstrate that the demographic and socioeconomic characteristics of college educated blacks are explaining less and less of the racial difference in home ownership rates, in turn suggesting that structural barriers (including the criteria by which homes are financed), discrimination in lending and housing markets, and initial wealth itself, are playing an increased and racially uneven role in the manner in which college educated Americans are acquiring new homes.⁶

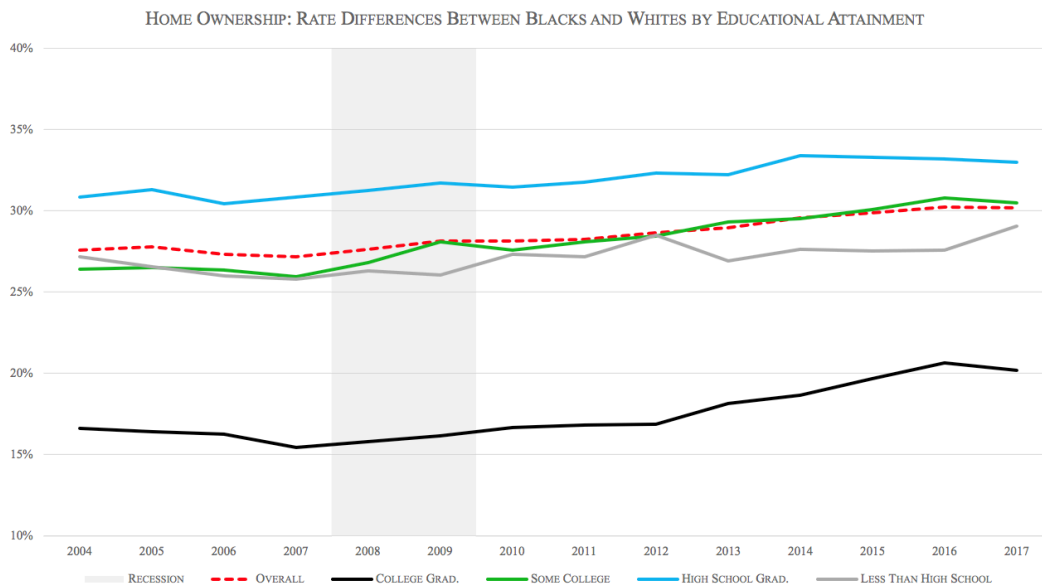
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DISPARITIES IN HOME OWNERSHIP RATES, 2004 TO 2017

Our analysis includes census microdata for the years 2004 to 2017 collected by the American Community Survey (ACS) – we selected these years to account for the periods before and after the Great Recession, as well as the period defined as the Great Recession. While the overall rate difference in homeownership between blacks and whites increased by 2.6 percentage points in the period studied, the difference for blacks and whites with a college degree increased by 3.6 percentage points - from 16.6 to 20.2 percent (see Figure 1). For both blacks and whites, unsurprisingly, households where the head graduated from college are the education group most likely to be homeowners. While the overall rate difference between blacks and whites with a college degree is smaller than other degree attainment groups, we do find an alarming trend that since the Great Recession that this demographic group appears to be losing ground.⁷

FIGURE A.

DIFFERENCE BETWEEN BLACK AND WHITE HOMEOWNERSHIP RATES, 2004–2017



BLINDER-OAXACA DECOMPOSITIONS: HOME OWNERSHIP AND COLLEGE EDUCATED BLACKS

To better understand the components of the increasing disparities in home ownership in the aftermath of the Great Recession, particularly among those with higher levels of educational attainment, we used Blinder-Oaxaca decompositions of black and white logistic regressions to decipher which portion of the rate difference at each point along the home ownership trend were due to average racial differences in homeownership related characteristics in comparison to racial differences in the manner in which a given level of characteristics are translated into homeownership (e.g. racial differences in homeownership regression coefficients).

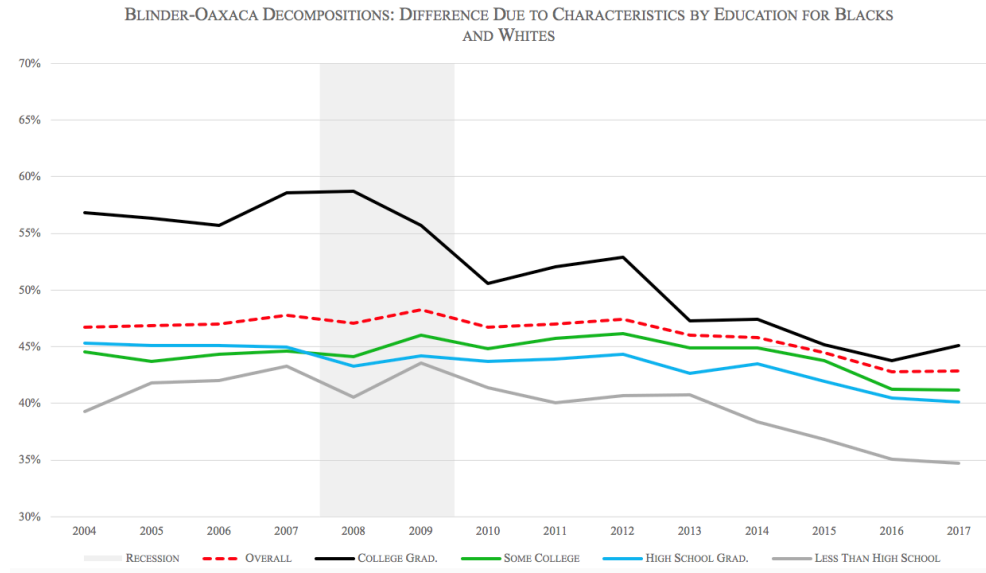
The later component, the way in which the coefficients are translated into home ownership, are indicative of structural and uncontrolled racial differences in home ownership. For example, structural barriers prior to the recession would be racially motivated subprime targeting, whereas after the recession, structural barriers would include more stringent lending criteria, including larger down payments.

Based on prior research by Freeman and Hamilton, our analysis considers a set of socioeconomic factors that are likely to be associated with home ownership.⁸ We consider factors that would affect the feasibility of home ownership, indicate life cycle factors and signify social status. The socioeconomic and demographic characteristics included in our analysis include age, marital status, educational attainment, wage income in broadly defined brackets, occupational prestige scores, if the household has a child under 18 years of age, the total number of persons in a household, nativity and gender of the head.

The Blinder-Oaxaca decomposition results, illustrated in Figures 2 and 3, indicate that demographic and socioeconomic characteristics explain a declining portion of the difference in homeownership rates between black and white college graduates in the aftermath of the Great Recession. While in 2004, demographic and socioeconomic characteristics accounted for 56.8 percent of the difference in home ownership between blacks and whites with a college degree, by 2017, characteristics only accounted for 45.1 percent of the difference.

FIGURE B.

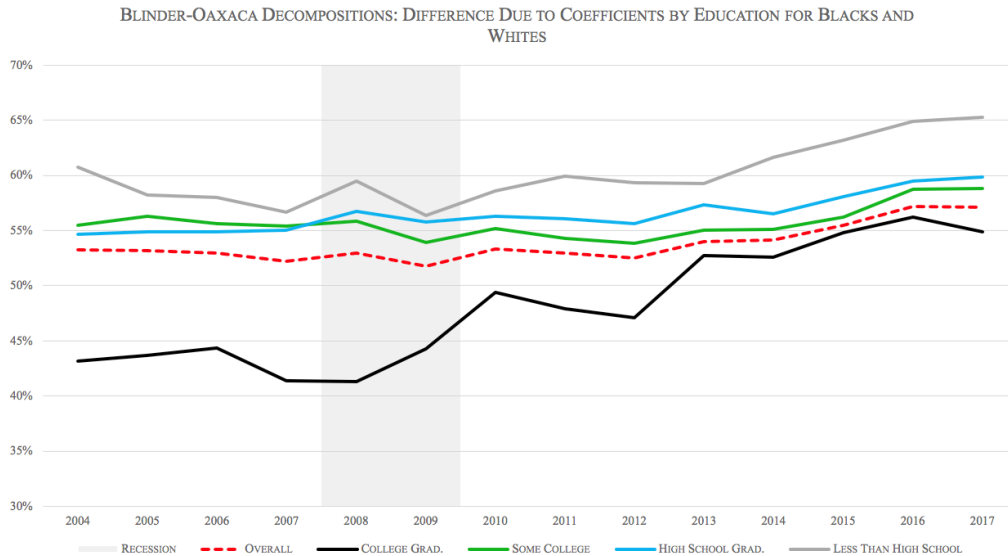
SHARE OF THE BLACK-WHITE HOMEOWNERSHIP GAP EXPLAINED BY DEMOGRAPHIC AND SOCIOECONOMIC CHARACTERISTICS, BY EDUCATIONAL ATTAINMENT, 2004-2017



On the flip side, we see that the racial difference due to coefficients – that is, the portion of the difference in home homeownership rates not explained by characteristics - is increasing. Between 2004 and 2017, the rate differences due to coefficients increased from 43.2 percent to 54.9 percent. No other education group had a racial rate difference attributable to coefficients in excess of 5.2 percent over this same period, whereas college educated blacks saw a loss in homeownership of more than 11 percentage points due to difference in which the market translated their homeownership characteristics into actual homes relative to their similarly educated white peers.

FIGURE C.

SHARE OF THE BLACK–WHITE HOMEOWNERSHIP GAP EXPLAINED BY DIFFERENT RETURNS TO DEMOGRAPHIC AND SOCIOECONOMIC CHARACTERISTICS, 2004–2017



CONCLUSION

The Great Recession led to a paradigm shift in lending requirements. Our findings suggest that this shift has had an especially detrimental effect on black college graduates. Education is not the panacea of upward mobility and economic security, especially as it relates to racial disparity. After all, and as we noted earlier, black households where the head graduated from college have considerably less wealth than white households even when the head dropped out of high school; that coupled with other discriminatory and structural barriers inhibits the ability of blacks to translate their demographic and socio-economic status into homeownership. The long standing racial disparities in homeownership, and the wealth it creates and transmits across generations, continue to buttress an inequitable and unfair housing market – even among those with higher levels of education.

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