



WASHINGTON STATE COVENANT HOMEOWNERSHIP PROGRAM STUDY

March 22, 2024



STUDY PRESENTED BY:



EXECUTIVE SUMMARY

In spring 2023, the Washington State Legislature passed the Covenant Homeownership Act (House Bill 1474, codified at Chapter 43.181 RCW) with bipartisan support. The Covenant Homeownership Act acknowledges the State government's role as both an active and passive participant in generations of discriminatory policies and practices that created barriers to credit and homeownership for historically marginalized communities in Washington and that these discriminatory actions continue to impact these communities today.

The Covenant Homeownership Act requires the Washington State Housing Finance Commission (WSHFC) to complete or commission a study to inform the development of a new special purpose credit program (SPCP) that will remedy racial disparities in homeownership and access to credit left by the State's long history of discrimination. This study fulfills the requirements of the Covenant Homeownership Act to document historical discrimination in housing and its impacts on current homeownership opportunities in Washington, to analyze the effectiveness of current programs and policies, and to recommend an approach to remedy lingering inequities.

The Covenant Homeownership Act creates a new source of funding for homebuyer assistance and mandates that the SPCP provide loans for down payment and closing cost assistance to program participants. The Act also mandates that program participants meet the following eligibility requirements:

- A household income at or below 100 percent of the Area Median Income (AMI),
- A first-time homebuyer, and
- A Washington resident who: (i) was a resident of Washington before the enactment of the Federal Fair Housing Act on April 11, 1968, and was, or would have been, excluded from homeownership in Washington by a racially restrictive covenant on or before that date; or (ii) is a descendant of a resident described in (i).

Special Purpose Credit Programs

Congress authorized SPCPs in a 1976 amendment to the Equal Credit Opportunity Act of 1974 (ECOA) as a tool to counteract centuries of unfair laws and policies that deprived millions of consumers of the right and opportunity to access fair mortgages and credit.¹ SPCPs are targeted lending programs designed specifically to help an economically disadvantaged group of people who, under customary standards of creditworthiness, probably would not receive credit or would receive it on less favorable terms than are ordinarily available to other consumers applying for a similar type and amount of credit. Congress ensured that these programs serving an economically disadvantaged group may consider race or ethnicity without violating ECOA's prohibition on discrimination in order to "increase access to the credit market by persons

¹ 1. "SPCP Toolkit for Mortgage Lenders," SPCP Toolkit, accessed March 19, 2024, <https://spcptoolkit.com/>.

previously foreclosed from it.”² In their design and implementation, SPCPs remediate the present-day impacts of historic and/or ongoing discrimination in the credit market.

This study provides the basis for developing Washington’s Covenant Homeownership Program as an SPCP. The study uses a mixed methods approach involving analyses of historical records, legislation, census data, home lending records, housing market trends, zoning policies, a community survey, and stakeholder interviews.

Over a Century of Housing Discrimination in Washington

Chapter 1 provides a historical overview of how discriminatory federal, state, and local policies systematically denied communities of color and other marginalized groups in Washington equal access to housing and credit opportunities for over a century. Key findings include:

- Washington residents of color and other marginalized groups faced widespread discriminatory barriers to equal housing opportunities from the 19th century onward, implemented through state and local governmental policies and practices.
- These discriminatory actions included land seizures, forced removal, over 50,000 racially restrictive covenants barring people of color and other marginalized groups from purchasing homes and living in specific neighborhoods, exclusionary zoning practices, and racist practices in the state-licensed real estate industry. State courts reinforced many of these practices.
- As a direct result, people of color and other marginalized groups in Washington were prevented from buying homes, accessing credit, and building wealth. These groups experienced widespread segregation and confinement to areas deemed least desirable by public officials and private actors. Residential segregation patterns established at this time persist to varying degrees today.

Impacts of Discrimination Continue Today

Chapter 2 documents the ongoing, lingering impacts of this history of discrimination. The chapter analyzes present-day data on homeownership, wealth, housing cost burden, homelessness, access to mortgage lending, and appraisal disparities. Findings include:

- In Washington today, there are significant disparities between the White homeownership rate and the homeownership rates of Blacks, Latinos, Native Americans, Alaska Natives, Native Hawaiians and other Pacific Islanders (NHPI), and two Asian subgroups (Koreans and Asian Indians).³

² 15 U.S.C. § 1691(c)(1); Senate Report 94-589, 1976 U.S.C.C.A.N. at 409.

³ For purposes of this study, we utilize the following language to refer to racial and ethnic groups: Black, Latino, Asian, Native American, Alaska Natives, Native Hawaiians and other Pacific Islanders, and White. However, when a dataset, case, historical document, or quotation uses alternate terminology, we often retain the original source’s terminology to ensure that we convey the information shared accurately. For example, when including U.S. Census data for “American Indian/Alaska Natives,” we use the

Washington Homeownership Rates by Race or Ethnicity

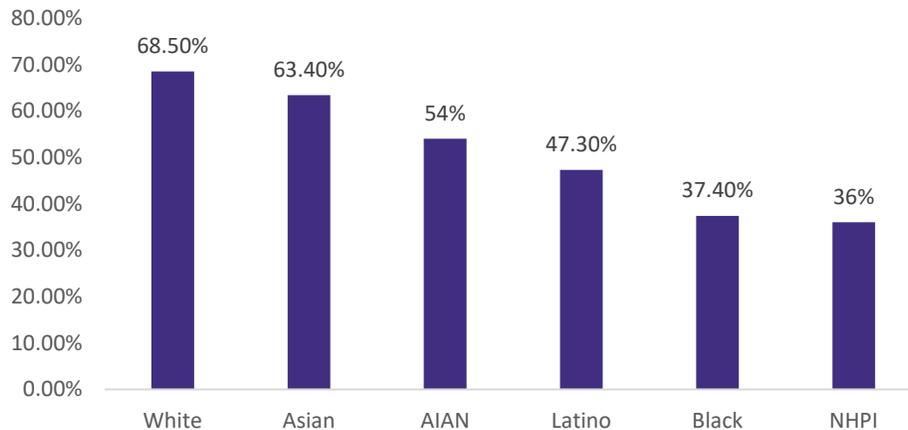


Figure 1 - Washington Homeownership Rates by Race and Ethnicity. Source: U.S. Census Bureau, 2021 American Community Survey.

- Because the racial homeownership rates are significantly lower for Blacks, Latinos, Native Americans, Alaska Natives, Native Hawaiians and other Pacific Islanders, and two Asian subgroups (Koreans and Asian Indians), for the purposes of this study, renters from these racial and ethnic groups are considered “impacted residents” who should be assisted by the Covenant Homeownership Program.
- Racial wealth disparities have grown, limiting the ability of impacted households to access affordable home mortgages or qualify for lending. In Washington, White households have a net worth of \$286,200 per household, while households of color have an estimated net worth one-quarter of that, or \$67,600.
- The lack of access to credit and unfair treatment in the appraisal and lending processes continues to disadvantage impacted residents. For example, Blacks and Latinos in Washington are denied mortgage loans at a rate of 11.9 and 12 percent, respectively, compared to a 6.6 percent denial rate for Whites and 7.9 percent for Asians.

Race-Neutral Approaches Are Not Effective

Chapter 3 evaluates different policy approaches for expanding ownership opportunities to impacted residents. Key findings from this analysis conclude that a race-neutral approach is unlikely to be effective or efficient in addressing past discrimination and ongoing disparities. The chapter establishes the following:

acronym “AIAN” to reflect the exact grouping of data that is being shared. The study also includes many unedited quotes that use discriminatory language, not to condone the use of this derogatory language but to present quotes in the context of how they were spoken or written.

- Existing homeownership programs in Washington primarily aid non-impacted residents rather than directly remedying past harm through a targeted approach.
- Modeling of five potential policy scenarios—(1) a no assistance scenario, (2) a baseline scenario that assumes \$10,000 in down payment assistance (DPA) is available from existing sources, (3) a DPA scenario that adds \$50,000 for income-eligible first-time buyers in low-cost counties and \$120,000 in high-cost counties, (4) an interest-rate reduction scenario, and (5) a credit-counseling scenario—shows that additional DPA assistance is the most effective scenario to aid impacted residents.
- Modeling also shows that a specially designed race-conscious SPCP focused on impacted residents could substantially remedy the wealth and credit access gaps left by historical discrimination with significantly less funding than a race-neutral program. With the \$75-\$100 million per year in anticipated fee revenue⁴ under the Covenant Homeownership Act, a race-conscious approach to DPA would reach four times the number of Black, Latino, Native American, Alaska Natives, Native Hawaiian and other Pacific Islanders, Korean and Asian Indian beneficiaries than a race-neutral approach. With an estimated \$6 billion cost to reach all impacted residents through a race-neutral approach, it would take decades to serve them all based on the expected annual fee revenue for the program.

A Race-Conscious Approach is Needed

Based on these findings, Chapter 4 recommends implementing a race-conscious SPCP to remedy the ongoing harms of discrimination by the State. It models several options for structuring a DPA program that could be incorporated into an SPCP. These include both fixed down payment assistance models, which provide the same amount regardless of where someone lives in the state and customized down payment assistance models, in which the amount each household receives varies based on housing prices in their county and their income. The modeling finds that:

- While a program that provided a fixed down payment assistance amount between \$25,000 and \$100,000 could serve a relatively large number of households – between 1,000 and 4,000 households with \$100 million – the number of impacted residents with incomes between 80-100% AMI who would be able to purchase a home with these levels of assistance is relatively small. This suggests that these assistance levels are not large enough to be effective in an SPCP.
- A customized DPA program, on the other hand, could enable all eligible renters with incomes between 80-100% AMI to purchase a home in their county. A customized approach, which varies the amount of DPA based on the eligible homebuyer's income and location, is effective and efficient in reaching impacted residents and allows for a reasonable degree of housing choice.
- Additionally, a large number of impacted residents in the 100-140% AMI range have a substantial need for down payment assistance in excess of the level of assistance typically available from existing DPA programs in Washington (about \$10,000-15,000).

⁴ The current revenue forecast for FY 2025 as of the publication date is \$61.8 million.

Assisting this group of residents would cost far less, on average, than it would cost to assist households with lower incomes.

The chapter also identifies administrative challenges WSHFC may need to consider and identifies additional policies and programs that would complement a DPA program by addressing other housing challenges that limit homeownership opportunities in the state, such as policies that expand the supply of lower-cost homes for purchase.

Program Recommendations

Recommendations for a new SPCP, consistent with the restrictions in the Covenant Homeownership Act, include:

- Implement the SPCP as outlined in RCW 43.181.040 for economically disadvantaged households with Black, Latino, Native American, Alaska Native, Native Hawaiian, Other Pacific Islander, Korean, or Asian Indian borrowers.
- Provide customized amounts of down payment assistance that enable households with incomes between 80-100% AMI to afford a modest-cost home in their county. Consider one of two models that effectively balance program cost and housing choice.
- Provide down payment assistance as a zero-interest loan.

The recommendations also encourage the consideration of new state legislation to allow for different types of assistance and eligibility criteria:

- Consider expanding eligibility for the SPCP to impacted residents with incomes up to 140% AMI, as the analysis identifies a large number of households within racial and ethnic groups impacted by the discrimination documented in Chapters 1 and 2, with incomes between 100-140% AMI, who need assistance to afford a modest-cost home and who could be served cost-effectively.
- To avoid trapping households in their homes and encourage wealth building, consider allowing them to re-use some or all of their assistance to apply to the purchase of a subsequent home and/or alternative repayment options.
- Given the widespread discrimination documented in Chapters 1 and 2, commission an additional study to consider the scope and feasibility of an SPCP that would support other economically disadvantaged households adversely impacted by the State's unlawful discrimination who are not eligible under the current legislation (for example, residents who do not meet the Act's pre-1968 residency requirement and residents who experienced adverse impacts from the State's discrimination but are not in an impacted group).

Evaluating the Program

Chapter 5 discusses potential approaches for evaluating a Covenant Homeownership Program in Washington. It presents a logic model outlining the program's inputs, activities, outputs, and short-

and long-term outcomes. It then describes how different types of evaluations, such as output evaluation, outcomes evaluation, impact evaluation, and qualitative evaluation, could be used to evaluate different aspects of the program and answer specific research questions. Key areas of focus for future evaluation include the number of homeowners assisted, their demographics and locations of homes purchased, the amount of wealth built over time, and changes in homeownership rates by race.

Chapter 5 also proposes two potential targets for the program that could be used to monitor the continued need for the program. The first suggested target is based on application volume, and the second target is based on the size of the reduction in racial disparities in homeownership.

Conclusion

This study completes the important first step in implementing the Covenant Homeownership Act to address the lasting impact of housing discrimination in Washington. By documenting the history of housing and lending discrimination against marginalized communities in Washington, outlining the significant role of the State in this discrimination, defining the impacts of that discrimination, and identifying approaches to remedy these impacts, the study provides an evidence-based framework for a remedial SPCP under the Act. Building on this framework, the Covenant Homeownership Program will bring critical assistance to members of historically marginalized groups and help them begin to build wealth through homeownership.

