Home Ownership and Poor Neighborhoods: Challenges for Polk County

Charles Bruner, Dana Cheek, and Syed Noor Tirmizi,
Child and Family Policy Center
For the Neighborhood Learning Partnership

March 25, 2004

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For most families, housing is the largest part of the family budget. Rent or home mortgage payments constitute the single largest monthly expenditure for most families, and particularly for low-income families. When people are purchasing their homes, however, they also are building up equity, or wealth. For most low and moderate income families, home equity represents the primary means by which they can build wealth and some measure of economic security.

Yet low income and minority people often face substantial barriers to home ownership, some of which are the result of limited discretionary income but some the result of credit histories and access only to sub-prime (e.g. charging higher interest rates) lending opportunities. In addition, low income and minority home purchasers are much more likely to be subject to unscrupulous, predatory lending practices, estimated to cost home purchasers $9 billion annually in excess charges on a national level. Polk County's share of that $9 billion cost would be approximately $8.5 million annually, much from residents in Polk County's poorest neighborhoods.[1] Therefore, it is important to make use of available data to assess home ownership and purchasing practices in Polk County.

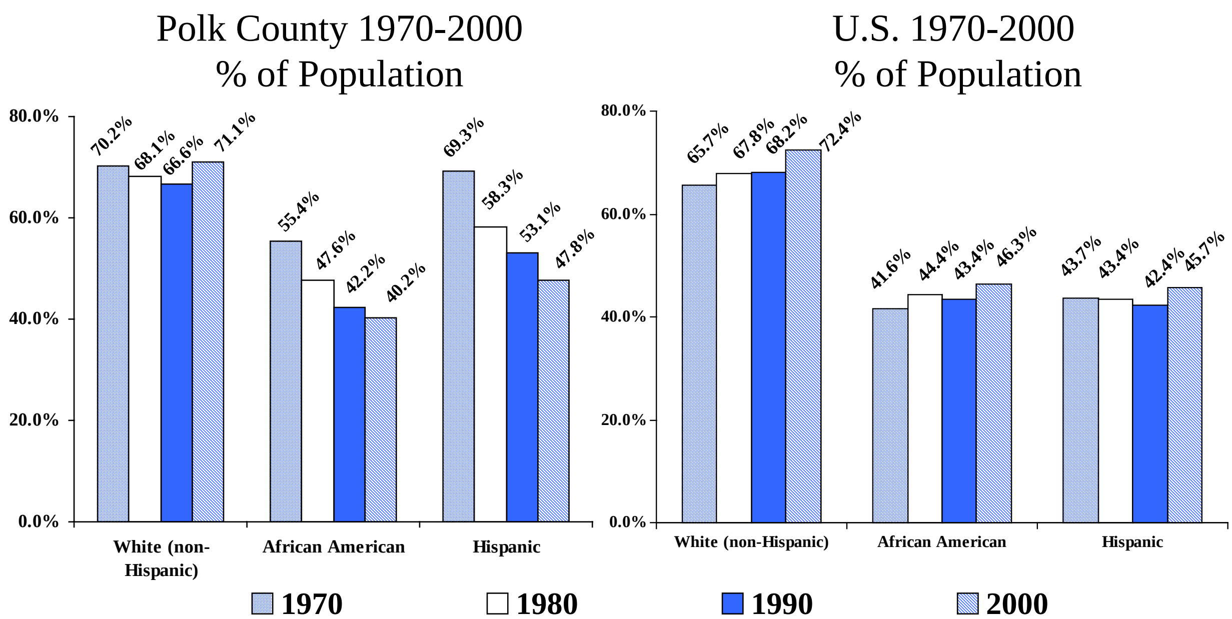
This Neighborhood Learning Partnership report provides information on home ownership in Polk County, with a particular emphasis upon home ownership within Polk County's poorest neighborhoods, the Making Connections neighborhoods and surrounding high poverty census tracts (see Endnotes for map). It provides information from several sources: the United States Census, the Polk County Assessor's Office, the Polk County Sheriff's Office, and the federal Home Mortgage Disclosure Act (HMDA) data base. While it cannot provide estimates of the amount of predatory lending that exists, the data provides clear evidence of housing and home ownership issues that deserve greater attention within Polk County.

Trends in Home Ownership in Polk County: 1970 to 2000

The United States Census provides longitudinal data tracking home ownership, available on a national, state, county, and census tract level. Chart One provides trend data on home ownership in Polk County and the United States over the last three decades, by race and ethnicity.

As Chart One shows, there are pronounced differences in home ownership across race and ethnicity. While in the United States, home ownership has remained relatively stable across different groups, in Polk County the gaps have widened substantially.

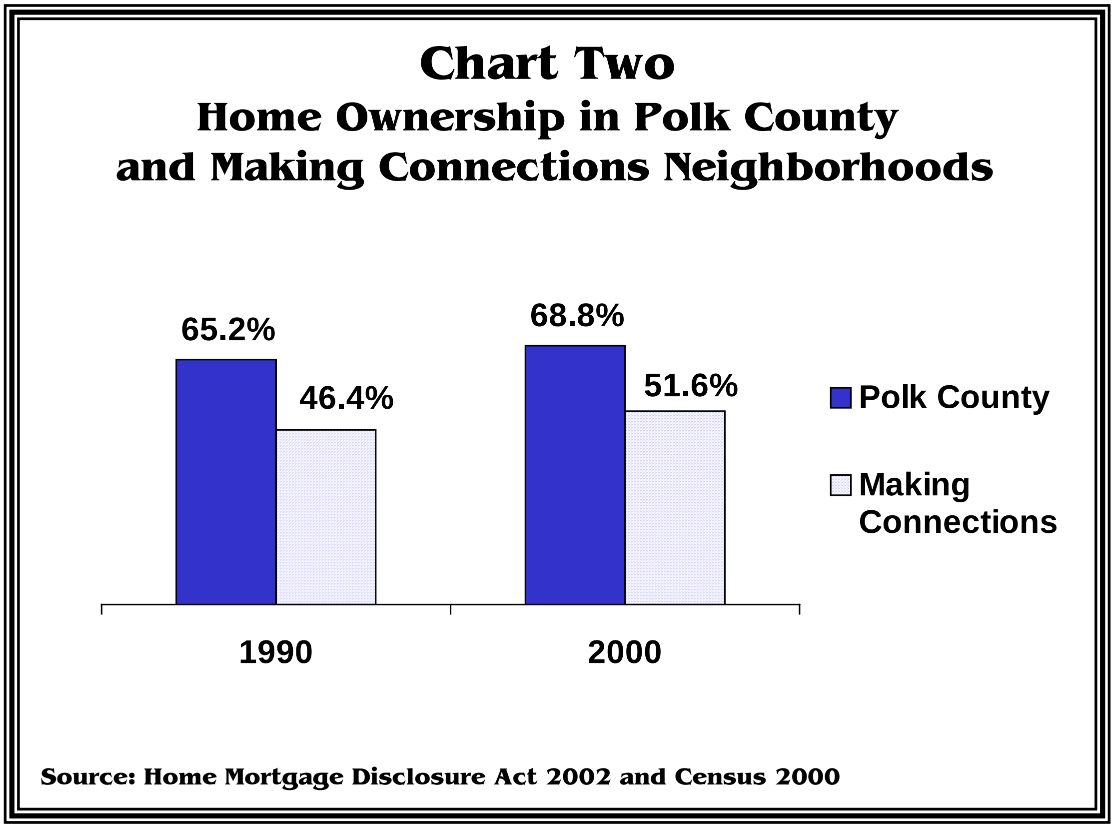
Chart One
Trends in Home Ownership in Polk County, Iowa and the U.S.



Source: Home Mortgage Disclosure Act 2002 and Census 2000

African American and Hispanics in Polk County had higher rates of home ownership than their counterparts in the rest of the United States through the 1970s and 1980s. Their rates of home ownership, however, have declined over this period and into the 1990s and 2000s, so that their overall rates of homeownership are at or below national averages (this decline also occurred for Iowa as a whole). This decline should be a concern not only among African American and Hispanic residents, but for the community as a whole. The Hispanic population, in particular, has grown over the last decade, and Polk County's, and the state's, growth is dependent upon an increasingly diverse workforce that is able to settle and prosper, with home ownership a key element of that prospering.

In addition to differences in home ownership by race, there also are substantial differences in home ownership by neighborhood, or place. Chart Two presents data from the last two censuses on home ownership in the two Making Connections neighborhoods, contrasted with home ownership in Polk County as a whole.



As Chart Two shows, there are major differences in home ownership by geography. While home ownership has increased slightly within the poorest inner city neighborhoods over the last decade (from 46.4% to 51.6%), it still remains much lower than for the rest of Polk County. While about half of households in Polk County's poorest neighborhoods are homeowners, over two-thirds of households in the rest of Polk County are homeowners. This represents a substantial spread in homeownership.

<u>Mortgage Lending, Contract Sales, and Foreclosures in the Des Moines Metropolitan Area</u>

The primary way that people purchase home is through securing home mortgages. In the 1960s and 1970s, housing advocacy groups were effective in demonstrating that certain geographic areas were effectively "red-lined" by banks and savings and loan institutions, meaning that banks and savings and loans institutions did not approve home mortgages in those areas. They also showed that minorities often found much greater difficulty securing home mortgage loans.

Congress enacted legislation to eliminate discriminatory practices and "red-lining" specific neighborhoods, through the Community Reinvestment Act (CRA). In addition, the Home Mortgage Disclosure Act (HMDA) required mortgage lenders to provide detailed information on their lending, which is part of a national data base. In addition, the federal government established a number of loan guarantee programs to enable home buying, where the federal government backed specific loans made by lending institutions, so government and not the institutions were at risk if there were default on the payments. These include VA, FHA, and FSA/RHS loans.

Table One breaks out HMDA 2002 data on mortgage originations by neighborhood within the Des Moines metropolitan statistical area (HMDA data is available on a metropolitan area, rather than a county, basis).

Table One
Home Purchase Loans Originated in Greater Des Moines Metropolitan Statistical Area – 2002

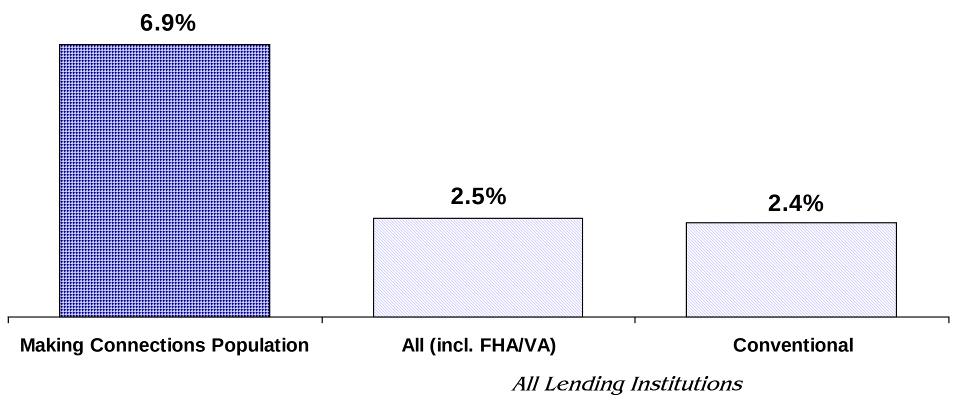
	MC East Census Tract	MC West Census Tract	All MC Census Tracts	All High-Risk Census Tracts	All Not-High Risk Census Tracts	Total Des Moines SMSA
All Loans	163	107	270	297	10,557	10,866
--FHA, VA, FSA/RHS	34	14	48	58	1,533	1,603
--Conventional	129	93	222	239	9,024	9,263
Population	14,419	17,254	31,673	41,875	414,237	456,022
Loans / 100 People	1.13%	0.62%	0.85%	0.71%	2.55%	2.38%
FHA, VA, FSA/RHS rate	0.24%	0.08%	0.15%	0.14%	0.37%	0.35%
Conventional Rate	0.89%	0.54%	0.70%	0.57%	2.18%	2.03%

Source: Home Mortgage Disclosure Act 2002 and Census 2000

Loan origination rates in the Making Connections neighborhoods are only one-third as great (0.85 loans per 100 people) as in the metropolitan area as a whole (2.38 loans per 100 people), and are particularly low in the West Making Connections neighborhood (0.62 loans per 100 people). The comparison in loan origination rates for conventional loans, as opposed to government-based loans, shows even greater disparities.

Chart Three shows home mortgage originations for all mortgages, and for conventional (not federally-backed) mortgages separately, for the Making Connections neighborhoods. This chart compares the volume of loan originations in relation to all loan originations (rather than the size of the population). The Making Connections population in relation to the standard metropolitan statistical area (SMSA) is also shown, for comparative purposes.

Chart Three
Percentage of Home Purchase Loans Originated in Making Connections Census Tracts in Greater Des Moines MSA - 2002



Percentages represent people or loans originated in Making Connections census tracts as proportion of total population or loans originated in SMSA.

Source: Home Mortgage Disclosure Act 2002

Again, Chart Three shows that there are relatively much fewer loan originations in Des Moines' Making Connections neighborhoods than would be indicated, given the size of the population in these neighborhoods. This is particularly true for conventional home mortgages.

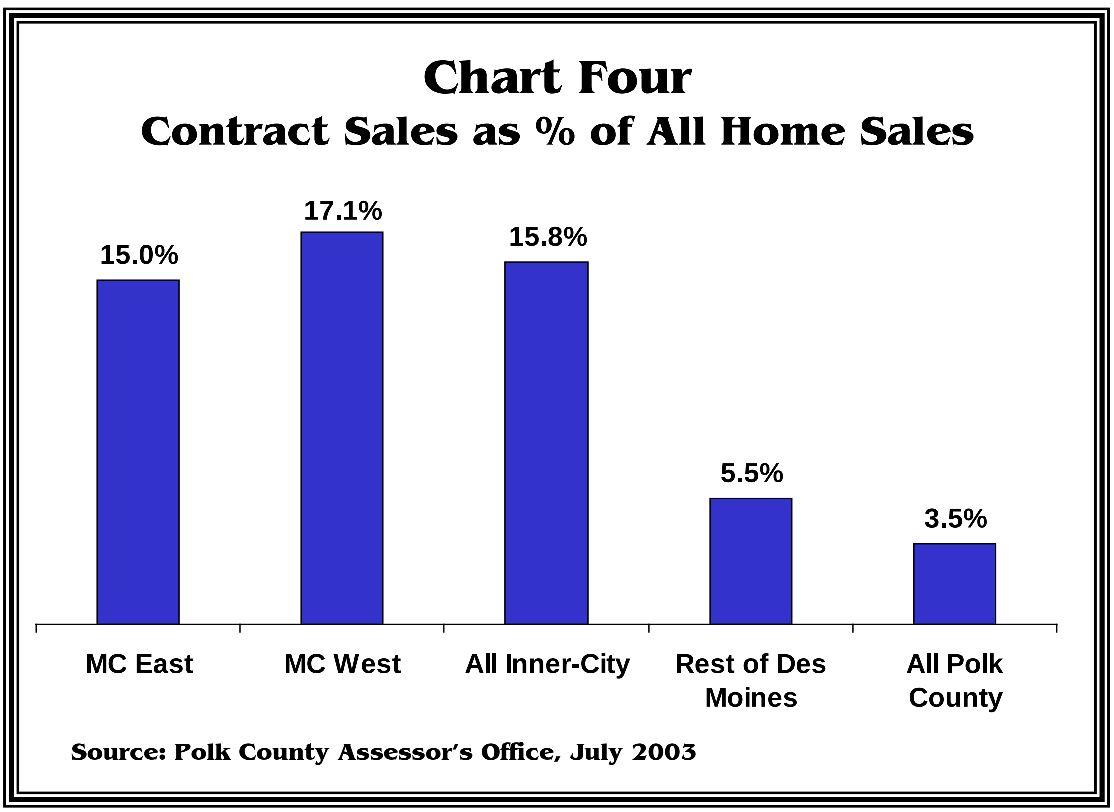
Mortgages generally offer the best financial arrangements for purchasing homes, but there are other means by which prospective home buyers can seek home ownership. Contract sales represent another form of home purchase. Contract sales are more often employed by people who cannot secure credit under conventional mortgages and do not qualify for government-backed mortgages.

In many instances, this is the result of poor or insufficient credit histories to qualify for mortgages. The reasons for this are many, but medical debt can play a significant role, which typically is the result of being uninsured or underinsured and requiring emergency medical care or hospitalization that produces charges that people cannot immediately pay. Medical debt usually shows up in credit histories and can make people ineligible for conventional borrowing. (The Making Connections survey showed that over one-third of residents in the Making Connections neighborhoods report having medical debt, see a separate report on this subject.[2])

While not all contract sales are inappropriate, contract sales are subject to the most abusive and predatory lending practices. They are not subject to the same regulations and restrictions as conventional or federally-backed mortgages. They generally have higher interest rates, and they also can have unrealistic balloon payments or artificially inflate housing values in ways that put contract buyers at substantial risk of eventual defaults, even if they make all their payments.[3] In Des Moines, Citizens for Community Improvement, working with the Attorney General's office, have corrected a number of abusive individual practices, renegotiated some contracts, and are working with financial institutions to provide more consumer information and protection against such predatory practices.[4]

The fact remains, however, that contract sales in general remain subject to abuse and predatory practices and should be viewed as least favored, last resort means for home buying. Expanding the conventional mortgage market is a better means to raising home ownership.

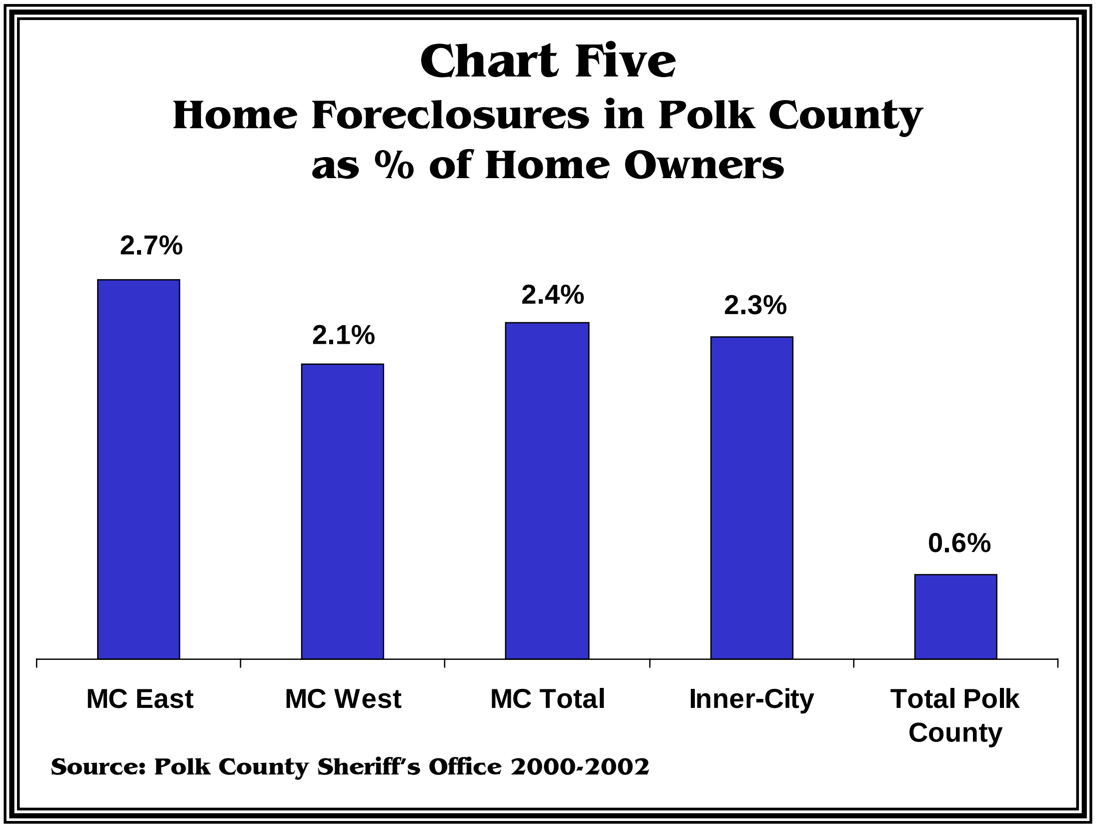
Data from the Des Moines city assessment office provides information on the prevalence on contract sales in Des Moines. Chart Four shows the percentage of homes being bought on contract sales (in comparison with those through home mortgages) for inner-city neighborhoods and for Polk County as a whole.



As Chart Four shows, 15%, or about one-sixth, of all home purchasers in Des Moines' poorest neighborhoods currently rely upon contract sales for home purchasing. This is more than three times the rate for the remaining census tracts in Des Moines and over four times the rate for Polk County as a whole.

It should not be a surprise, then, that the foreclosure rate on home mortgages or contract sales would be higher in poor neighborhoods than in the rest of the Des Moines community. Chart Five provides foreclosure data by neighborhood.

As Chart Five shows, the foreclosure rate is substantially higher in the Making Connections and other poor neighborhoods in Des Moines, with a rate four times the average for the Making Connections neighborhoods taken together, and the inner-city as a whole, when contrasted with Polk County overall foreclosure rates.



Discussion and Conclusions

The 2003 national Kids Count report emphasized "the high cost of being poor." Poor and low income working families not only have less income, but they often have to pay more for goods and services – for food, for check cashing, for purchasing large items (often through rent-to-own arrangements), and particularly for home purchasing. Some of this is because they live in neighborhoods which do not have the same access to resources that those living in more affluent neighborhoods take for granted.[5]

This report certainly provides strong evidence that residents in Making Connections and other poor census tracts in Des Moines experience many more challenges building wealth and security through homeownership than exists in the rest of the community. Further, a "business as usual approach" is unlikely to dramatically change these figures, and trend data suggest that lack of positive actions could worsen prospects for minority families.

The options for action are several.

First, the grassroots work of Citizens for Community Improvement and the Attorney General's office could be further supported. Identifying and correcting predatory lending practices on an individual basis, as CCI has done very effectively, takes time and staffing, which translates into resources. Additional support could produce more action and provide help to more individual residents.

Second, existing financial institutions could be enlisted to develop proactive policies to produce more conventional mortgage lending. This could include assigning staff specifically to this geographic area, opening a branch office to serve these neighborhoods (which also could reduce the cost of check cashing and other financial services for inner-city residents), and aggressively recruiting new employees from within these neighborhoods.

Third, state laws and policies could be enacted to provide greater consumer protections from predatory lending practices. Model legislation in North Carolina has been reported to save the state's homeowners an estimated $232 million in 1999 by prohibiting certain predatory lending practices and ensuring borrowers had full information of the conditions in contract sales. [6] Other states, and some cities through ordinances, have established similar predatory lending regulations and consumer disclosure requirements.

In addition, other states have developed disclosure requirements regarding rapid refund advances that can gouge low-income tax filers and practice standards for payday loan companies that can prey upon limited resource families. There are opportunities to develop a "working people's financial bill of rights" that would provide greater protections, with substantial potential benefits not only to residents in poor, inner-city neighborhoods but also benefits to the whole community in increased community spending and investment power that has strong economic multiplier effects.

This report has clearly identified mortgage and housing needs within Polk County and the Making Connections and other poor neighborhoods. There is sufficient evidence to begin to take action to address these concerns, and improve opportunities for inner-city residents. Further, this should provide win/win options for both the inner-city and the larger metropolitan and county communities.

Appendices

Table 1: Disposition of Home Purchase Loan Applications by Geographic Area – For all Institutions

	MC Neighborhood East Des Moines	MC Neighborhood West Des Moines	MC Areas	Central City	Remaining Areas	MSA
FHA, FSA/RHS & VA Loans						
Loan Originated	34	14	48	58	1533	1603
Approved, Not Accepted	1	0	1	3	87	90
Application Denied	4	2	6	6	111	117
Application Withdrawn	1	2	3	4	54	58
File Closed for Incompleteness	1	0	1	1	30	31
% of Applications Denied	10.53	12.50	11.11	9.38	6.75	6.80
Ratio of Loan Originated to All Dispositions	0.83	0.78	0.81	0.81	0.84	0.84
Ratio of Loan Originated to All Excluding Approved	0.85	0.78	0.83	0.84	0.89	0.89
Population	14419	17254	31673	41785	414237	456022
Loans Originated to Total Population	0.0024	0.0008	0.0015	0.0014	0.0037	0.0035

Source: HMDA Data 2002, Census 2000

Table 2: Disposition of Home Purchase Loan Applications by Geographic Area --For all Institutions

	MC Neighborhood East Des Moines	MC Neighborhood West Des Moines	MC Areas	Central City	Remaining Areas	MSA
Conventional Loans						
Loan Originated	129	93	222	239	9024	9263
Approved, Not Accepted	19	15	34	38	931	969
Application Denied	73	43	116	111	1403	1514
Application Withdrawn	22	18	40	40	733	773
File Closed for Incompleteness	31	25	56	57	519	576
% of Applications Denied	36.14	31.62	34.32	31.71	13.46	14.05
Ratio of Loan Originated to All Dispositions	0.47	0.48	0.47	0.49	0.72	0.71
Ratio of Loan Originated to All Excluding Approved	0.51	0.52	0.51	0.53	0.77	0.76
Population	14419	17254	31673	41785	414237	456022
Loans Originated to Total Population	0.0089	0.0054	0.0070	0.0057	0.0218	0.0203

Source: HMDA Data 2002, Census 2000

Table 3: Disposition of All Home Purchase Loan Applications by Geographic Area -- For all Institutions

	MC Neighborhood East Des Moines	MC Neighborhood West Des Moines	MC Areas	Central City	Remaining Areas	MSA
All Loans						
Loan Originated	163	107	270	297	10557	10866
Approved, Not Accepted	20	15	35	41	1018	1059
Application Denied	77	45	122	117	1514	1631
Application Withdrawn	23	20	43	44	787	831
File Closed for Incompleteness	32	25	57	58	549	607
% of Applications Denied	32.08	29.61	31.12	28.26	12.54	13.05
Ratio of Loan Originated to All Dispositions	0.52	0.50	0.51	0.53	0.73	0.72
Ratio of Loan Originated to All Excluding Approved	0.55	0.54	0.55	0.58	0.79	0.78
Population	14419	17254	31673	41785	414237	456022

Source: Polk County Sheriff's Office (2000-2002)

Table 4: Foreclosures by Institution and Geographic Area

	MC Neighborhoods East Des Moines		MC Neighborhoods West Des Moines		MC-Areas		Central City		Remaining Areas		Polk CT	
Name of the Institution	**N**	**Percent**	**N**	**Percent**	**N**	**Percent**	**N**	**Percent**	**N**	**Percent**	**N**	**Percent**
Institutions (1-9) Foreclosures	39	45.35	17	36.17	56	42.11	71	45.51	252	52.50	323	50.79
Wells Fargo and its Affiliates	13	15.12	6	12.77	19	14.29	19	12.18	35	7.29	54	8.49
Ameriquest Mortgage	4	4.65	4	8.51	8	6.02	8	5.13	11	2.29	19	2.99
Bank of America	2	2.33			2	1.50	2	1.28	9	1.88	11	1.73
Chase Manhattan Bank	2	2.33	1	2.13	3	2.26	3	1.92	15	3.13	18	2.83
Commercial Federal	2	2.33	2	4.26	4	3.01	4	2.56	11	2.29	15	2.36
Countrywide Home Loans	1	1.16	1	2.13	2	1.50	2	1.28	15	3.13	17	2.67
Firstar Bank	2	2.33			2	1.50	4	2.56	9	1.88	13	2.04
Nationwide Home Mortgage	1	1.16			1	0.75	1	0.64	15	3.13	16	2.52
Norwest Bank	3	3.49	4	8.51	7	5.26	8	5.13	14	2.92	22	3.46
Principal Residential	1	1.16			1	0.75	2	1.28	31	6.46	33	5.19
United Companies Lending Corp	4	4.65	4	8.51	8	6.02	11	7.05	13	2.71	24	3.77
US Bank	2	2.33	3	6.38	5	3.76	5	3.21	11	2.29	16	2.52
US Bank National									14	2.92	14	2.20
Bankers Trust & its Affiliate	9	10.47	4	8.51	13	9.77	14	8.97	10	2.08	24	3.77
First Union National Bank	1	1.16	1	2.13	2	1.50	2	1.28	15	3.13	17	2.67
Total	**86**		**47**		**133**		**156**		**480**		**636**	

Source: Polk County Sheriff's Office (2000-2002)

Table 5: Residential Housing Values and Conditions

	MC Neighborhoods East Des Moines	MC Neighborhoods West Des Moines	MC Areas	Inner City	Remaining Areas	Metro	Polk[a] County
Average Property Value	48861.47	42977.38	46202.51	49001.64	99391.74	91268.15	115495.97
Average square foot living area	956.67	1130.37	1035.16	1045.46	1177.41	1156.14	1408.87
Value per square foot	51.07	38.02	44.63	46.87	84.42	78.94	81.98
% of housing rated as very poor/poor & below normal	26.5	33.0	29.4	27.6	8.3	11.4	6.3
Average housing condition	1.84	1.61	1.74	1.78	2.48*	2.37*	2.14*
Total Structures	4523	3729	8252	9545	49662	59207	131133

Source: Polk County Assessor's Office, July 2003

a. = Figures based on Sept. 22, 2003 updated file * = Average condition "Normal" 2 = Normal 3 = Above Normal

Table 6: Residential Home Sales and Housing Conditions

	MC Neighborhoods East Des Moines	MC Neighborhoods West Des Moines	MC Areas	Inner City	Remaining Areas	Metro	Polk[a] County
Total Sales	233	164	397	457	2264	2721	9019
Contract Sales	35	28	63	72	124	196	319
% Contract Sales	15.0	17.1	15.8	15.8	5.5	7.2	3.5
Average Price[1]	54142	56137	54966	56688	105242	97087	132322
Median Price[2]	52000	54250	52500	54500	99500	91000	121150
Average Housing Condition[3]	1.79	1.77	1.86	1.89	2.52*	2.41*	1.96
Total Number of Households	5129	5564	10693	15386	68544	80772	149316
Total Number of Home Owners	3228	2285	5513	6695	50429	52192	102621
Total Structures	4523	3729	8252	9545	49662	59207	131133

Source: Polk County Assessor's Office, July 2003 and Census 2000

a = Figures based on Sept. 22, 2003 updated file 1 = Average price of property sold 2 = Median price of property sold
3 = Average condition for houses that were sold * = Average condition "Normal" 2 = Normal 3 = Above Normal

Endnotes

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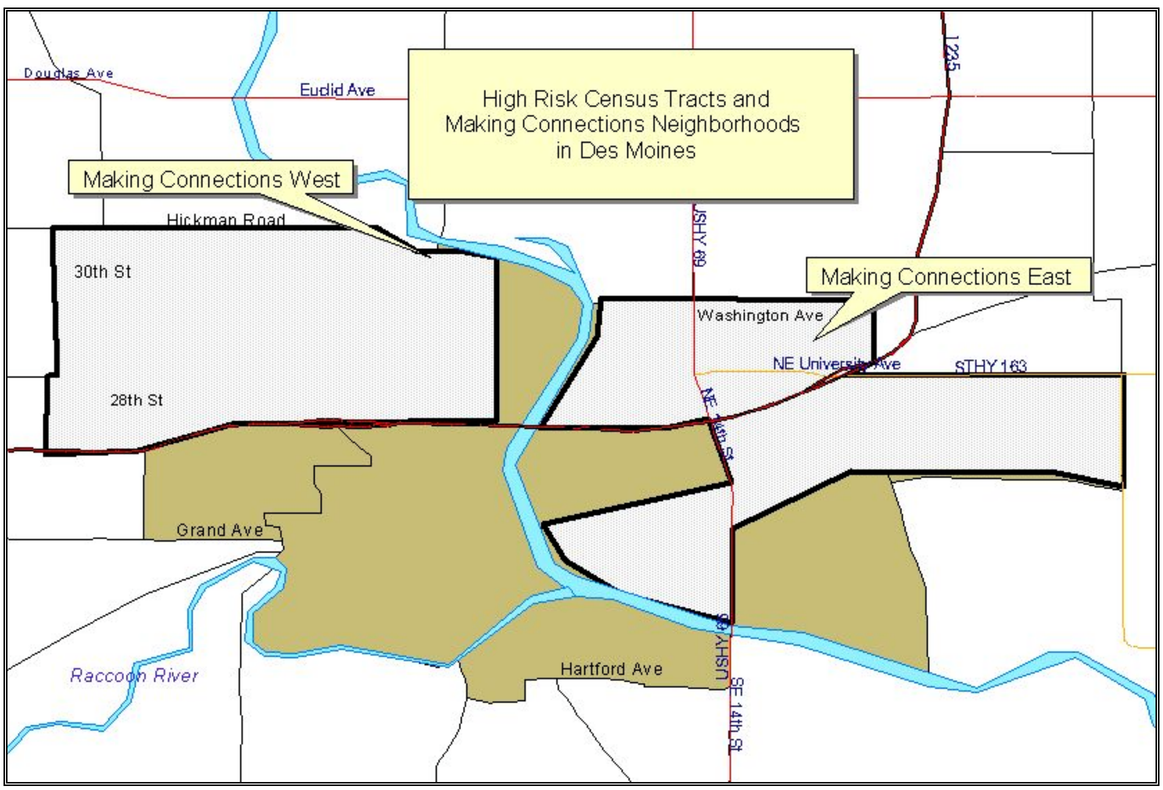
[1] Stein, Eric (2001). *Quantifying the Cost of Predatory Lending.* Coalition for Responsible Lending, Durham, NC. The estimate for Iowa is $47.5 million, so Polk County's share would be in the $7-10 million range.
[2] Center for Public Health Program Evaluation (2003). *Des Moines Making Connections Neighborhoods Medical Debt.* Neighborhood Learning Partnership, Des Moines, IA. Powerpoint presentation.
[3] A brief description of these practices, and their costs to consumers, is found in Stein, Eric, *Quantifying the Economic Costs of Predatory Lending, op. cit.* These include financed credit insurance ($2.1 billion), exorbitant up-front fees ($1.8 billion), subprime prepayment penalties ($2.3 billion), and excess interest charged ($2.9) billion. The Center for Community Improvement website contains much specific inforamtion on predatory lending in Des Moines. www.iowacci.org/desmosines/predatory.htm.
[4] See CCI website. www.iowacci.org.
[5] Nelson, Douglas (2003). "The High Cost of Being Poor: Another Perspective on Helping Low-Income Families Get By and Get Ahead," lead essay in *Kids Count Data Book 2003: State Profiles of Child Well-Being.* Annie E. Casey Foundation, Baltimore, MD.
[6] *Ibid.* p. 27-29.



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