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Elizabeth Warren's New Housing Proposal Is Actually a Brilliant Plan to Close the Racial Wealth Gap

By [Mehrsa Baradaran](#) and [Darrick Hamilton](#)

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Last month, Sen. Elizabeth Warren [released](#) a \$450 billion housing plan called the American Housing and Economic Mobility Act. The proposal is a comprehensive and bold step toward providing affordable housing for the most vulnerable Americans. The bill is the first since the Fair Housing Act with the explicit intent of redressing the iterative effects of our nation's sordid history of housing discrimination. Critically, it has the potential to make a substantive dent in closing our enormous and persistent racial wealth gap.

Government discrimination played a big role in creating that gap. President Franklin D. Roosevelt's New Deal built an American middle class, but many programs were discriminatory in practice, bifurcating the nation into wealth-building white communities and segregated black communities. Most notoriously, the Home Owners' Loan Corporation and the Federal Housing Administration helped millions of white Americans buy homes but deliberately refused to insure mortgages for black families, particularly in white communities—a process known as redlining. Private lenders followed suit, refusing to provide loans to creditworthy borrowers, largely depriving the black community of mortgage credit and the opportunity to buy a home.

Over the next decades, white families used their home equity to secure small-business loans, send their children to college, or help their children put together home down payments—an iterative wealth building that was passed on to the next generation. In contrast, black families were left exposed to predatory private finance. Racially determined distribution of federal capital coupled with lending and housing discrimination begat an expanding racial wealth gap and decades of inter-generational poverty.

America's policies to redress these economic injustices have been largely insufficient. The Fair Housing Act—passed in the wake of the Rev. Martin Luther King, Jr.'s assassination in 1968—provided crucial legal protections against racial discrimination in housing, including the kinds of discriminatory practices that steered blacks away from high-amenity white neighborhoods toward high-poverty segregated ones—a common tactic of Northern segregationists. To promote desegregation, the bill gave the Department of Housing and Urban Development a strong mandate to “affirmatively further” the inclusion of black Americans in fair housing. But the bill failed to commit financial resources or drive capital into black neighborhoods to enable them to buy homes and close the gap from white communities who had enjoyed government support for decades.

As a result of this history, our nation still lives in the shadow of those fateful New Deal policies that were discriminatory in application. In America today, black children still suffer due to past segregation promoting housing policies that have confined blacks to low wealth and low asset appreciating ZIP codes. According to a [recent report](#), 74 percent of neighborhoods that were redlined are still low income, and 64 percent are still minority neighborhoods.

Warren's bill is a monumental step forward that acknowledges injustice of the past and invests real money to redress it. Her bill would seek to address the racial wealth gap by establishing a down payment assistance program designed to support families who were historically excluded from government programs. The bill directs HUD to provide a grant that would be equivalent to an FHA loan down payment to all low- and middle-income first-time homebuyers who live in formerly redlined communities that are still low income. While many first-time homebuyers have help from family in putting together a down payment, government discrimination robbed most families in redlined neighborhoods of that opportunity. And so this provision has the potential to facilitate homeownership for hundreds of thousands of black families.

The bill also toughens the Community Reinvestment Act to force financial institutions to serve creditworthy families in communities they've ignored for decades. The bill expands the CRA to include nonbank mortgage lenders and credit unions who [now](#) provide more than half of mortgages; clarifies the law's requirement that institutions "serve" their communities, which have been subject to gaming by financial institutions; gives community groups more opportunities for input into regulators' evaluations of financial institutions; and requires regulators to disclose more of the data that informs their evaluations so that communities can assess whether investments that are supposed to support the community fulfill that promise. The bill encourages local jurisdictions to shed unnecessary laws—some of which were enacted shortly after the Fair Housing Act banned explicit exclusion of black families—that have made housing more expensive and prevented new residents from moving in. And it expands the Fair Housing Act itself to ban discrimination based on sexual orientation, gender identity or marital status, and source of income, including government benefits.

The American Housing and Economic Mobility Act also addresses the poverty caused by generations of housing discrimination. Black families are more likely to rent their homes because of historic exclusion from the housing market and restriction from accumulating and passing down wealth in general. In recent years, a severe shortage of affordable housing affecting every county in America has caused rents to spike for low- and middle-income renters, stretching their budgets and putting them at risk of eviction. The bill would invest \$45 billion a year for 10 years in proven federal programs that use public capital to subsidize the construction and preservation of housing that's affordable to working families. An [independent analysis](#) by Moody's Analytics suggests this investment will produce more than 3 million new units and that new supply will pull down rents by 10 percent and create 1.5 million new jobs. In addition, the bill provides \$2 billion in new

grants to states to help homeowners and communities targeted with the most abusive loans before the financial crisis—often communities of color—where many homeowners still owe more on their mortgages than their properties are worth. These grants could be used for loan modifications that include principal reduction, purchasing or rehabilitation of vacant lots to increase neighborhood property values, or providing loans to negative equity borrowers to allow them to maintain or rehabilitate their homes.

All in all, the legislation will help families buy affordable homes but also build asset security and community wealth by providing capital for down payments to those who have been historically excluded from homeownership. It has the potential to lift historically marginalized communities by reversing more than a century of capital exclusion and housing discrimination. In a holistic way, Warren's bill attempts to address our past and ongoing housing problem by including targeted investments in rural communities, Native American communities, and formerly redlined black communities, echoing President Lyndon B. Johnson's War on Poverty and King's Poor People's movement.

The New Deal showed us the iterative and multigenerational value of wealth creation resulting from capital finance provided by government housing assistance. It is in this tradition that Warren is charting a way forward in which all Americans can have the economic security of having a roof over their heads.