

The Racial Wealth Gap at the Low End of the Mortgage Distribution: Evidence from Smallest-Dollar Mortgage Lending in Metro Detroit

Patrick Meehan, PhD

The Center for Equitable
Family & Community
Well-Being

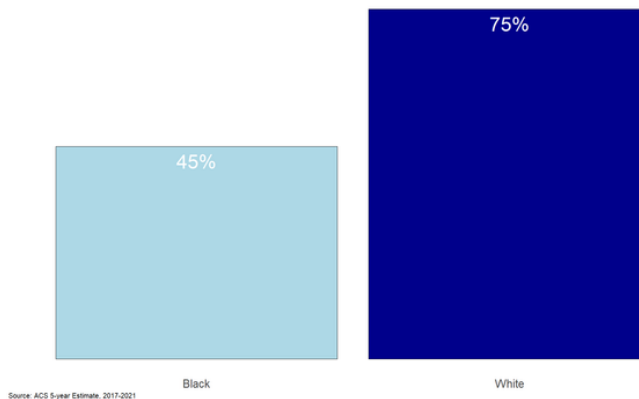
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I. INTRODUCTION

The racial wealth gap can be understood as the difference in the value of assets held by White American households and those held by households of color. Derenoncourt, Kim, Kuhn, and Schularick (2022) trace the roots of the racial wealth gap to before the Civil War, but it continues to persist to this day, and is in fact growing (Shapiro, Meschede, & Osoro, 2013; Sullivan et al. 2015). In 2016, for example, the average wealth for a Black head of household was \$140,000, versus \$901,000 for a White head of household. Typically, the home is the single biggest asset a household possesses. So the homeownership gap, or the difference in the rate of homeownership between White Americans and households of color, is a big contributor to the racial wealth gap (Sullivan et al. 2015; Urban Institute, 2017). The homeownership gap is in fact greater today than it was prior to the passage of the Fair Housing Act of 1968, which specifically barred discrimination in mortgage lending —among other provisions—on the basis of race (Henderson, 2022).

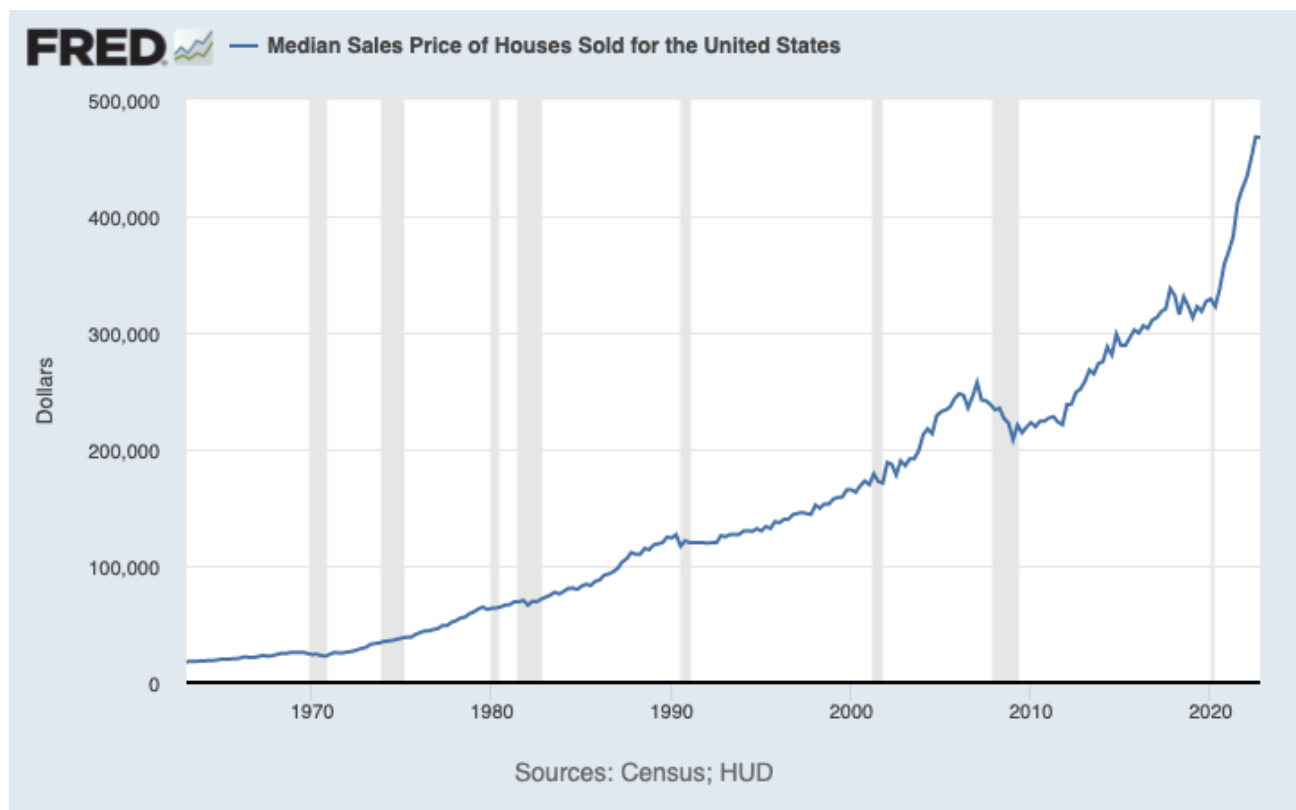
U.S. Homeownership Rate, 2021



Reducing the homeownership gap itself, then, can reduce the racial wealth gap. Using data from the Survey of Income and Program Participation, Sullivan and colleagues (2015) calculate that equalizing the homeownership rate between White households and households of color would increase median Black wealth by \$32,113 and lower the racial wealth gap by 16%.

Simply owning a home, though, is not a guaranteed way to increase household wealth, as the authors freely admit. It matters for wealth-building purposes how long a household has owned a home. Sullivan and colleagues (2015) find the number of years a household owned their home explained 27% of the racial wealth gap. Location also matters greatly to wealth through homeownership, as home values vary in neighborhoods where White households and households of color live.

Since the COVID-19 pandemic in 2020, the median sale price of new residential homes in the United States has skyrocketed, as the chart below from the Federal Reserve Bank of St. Louis (2023) indicates. While this represents a period of tremendous wealth-building for *existing* homeowners, it is also an indicator that buying in to homeownership *now* is quite expensive (Darity et al., 2018). Having higher incomes makes purchasing a home more practical, but there is a racial income gap in addition to a tremendous racial wealth gap (Urban Institute, 2017). Without enough income to purchase a home in cash, potential homeowners typically borrow to purchase a home. The vast sums necessary to purchase a home at the median sale price in 2022 can leave them exposed if the value of the home decreases. This is exactly what happened to Black homeowners in the 2008 financial crisis, who often owed more on their homes than they were worth (Grinstein-Weiss et al., 2013).



Thus, the wealth-building potential of homeownership cannot be separated from home equity, or the difference in the value of the home versus what is owed on the home. The less a potential homeowner needs to borrow to purchase a home the greater equity they will have in the home. Sullivan and colleagues (2015) find that the value of home equity varies greatly by race, with median White home equity worth \$86,800 versus \$50,000 for Black homeowners.

All of these wealth-building considerations—length of homeownership, location, sale price, loan amount, home equity—exist on distributions. It is indeed expensive to purchase a home at the median sale price in the 4th quarter of 2022, and that expense may leave homeowners with little room to accumulate any equity for some time. Is that still the case at the lower end of the distribution? What about homes that sell for substantially less than the median?

Attention has been paid in recent years to the growing need for, and the lack of availability of, small-dollar mortgages ([Zainulbhai, Blizard, & Richardson, 2021](#)). The Federal Reserve Bank of Philadelphia ([Goldstein & DeMaria, 2022](#)) identifies \$100,000 as the cut-off for so-called small-dollar mortgages. In this paper we go even lower than the Philadelphia Fed's \$100,000 small-dollar threshold and examine the mortgage lending floor in the Metro Detroit region. At this level of lending, which can be as low as \$5,000, we consider whether there are significant Black-White differences that impact that value of homeownership. Are there equity concerns? How much wealth-building potential exists in homes that are financed at the lending floor in a given neighborhood? And, most importantly, does lending at this level perpetuate the racial wealth gap?

To answer these questions we use data on home purchase loans from the [Home Mortgage Disclosure Act](#) for the counties in the Metro Detroit region (Wayne, Oakland, and Macomb). We determine the lending floor for each census tract in the three-county area between 2018 and 2021 by identifying the lowest loan amount originated in that period of time. This process yielded 2,236 loans. We then perform identical analyses at two different levels of information. We examine differences in the average loan amount, the average equity, the average home value, and the average wealth-building between (1) Black and White borrowers, respectively; and (2) majority-Black and majority-White neighborhoods. By looking at both levels of information we gain insight into the experiences of borrowers pursuing homeownership (i.e. the cost of, and potential wealth-building potential of homeownership) while also gaining insight into the cost of homeownership in different parts of Metro Detroit at the lowest level of mortgage lending.

II. Small-Dollar Mortgages

The small-dollar mortgage market is attracting greater attention both because of its size, and its general absence from the lending landscape ([Weekly, 2022](#)). Using data from the 2021 American Community Survey, the Philadelphia Fed (2022) found that 14% of all owner-occupied housing was valued less than \$100,000. This is not an insignificant portion of the housing market. And in cities like Detroit, it is predominant. Even at such low values, though, financing is still necessary to purchase homes in Detroit. In 2021, the median household income was \$34,762 in Detroit, and \$65,603 for the region (Census Bureau, 2021).

Despite the need, small-dollar mortgages are hard to come by. According to the Urban Institute ([McCargo, Bai, George, Stochak, 2018](#)), of the 643,000 homes that sold for less than \$70,000 in 2015, a little more than 177,000 (roughly 27%) of them included mortgage financing. Within the range of homes values in Detroit, they find that of homes sold between \$10,000 and \$30,000 in 2015, only 8% included mortgage financing. Further, they found that there were 300 counties across the United States in 2015 in which at least 500 homes were sold for less than \$70,000. In these counties, the proportion of homes selling for less than \$70,000 was 39%. In other words, there are concentrated areas of need for small-dollar mortgages, as in Detroit, with limited availability.

A common feature in many of the 300 counties the Urban Institute identified was aging housing stock in need of repair. In these counties, 63% of homes were built before 1980. In Detroit, and the region as a whole, the housing stock is significantly older. The median year a structure was built in Detroit is 1947, and for the region as a whole the median is 1954 (Census Bureau, 2021).

Home purchase mortgages cannot be used for renovations to these aging homes. Regulatory requirements meant to protect borrowers from purchasing sub-standard homes, particularly in the case of FHA loans ([Zhu & Ballesteros, 2021](#)), further limit the availability of mortgage financing to purchase homes that are not move-in ready.

Irrespective of the condition of the home, small-dollar mortgages have been traditionally seen as riskier than higher value mortgages (McCargo, Bai, George, & Stochak, 2018; [McCargo, Bai, & Stochak, 2019](#); Zainulbhai, Blizard, & Richardson, 2021)). The kinds of borrowers looking for small-dollar mortgages were themselves seen as riskier. These borrowers would, on average, have less income, lower credit scores, higher debt-to-income ratios, etc. than borrowers seeking higher value mortgages. Recently, the Urban Institute (2019) found inconclusive evidence that such dichotomies exist between small-dollar borrowers and borrowers seeking higher value mortgages. Moreover, they find small-dollar mortgages perform on par with higher value loans.

Additional regulatory factors limit lenders' enthusiasm for originating small-dollar mortgages. Reforms put in place in the wake of the 2008-2009 financial crisis, for example, fixed the costs to originate mortgage loans, regardless of their size (Goldstein & DeMaria, 2022). This incentivizes lenders to make higher value loans to achieve greater profits. Similarly, the post-2009 reforms also capped discount points based on the size of the loan at closing ([Consumer Financial Protection Bureau, 2017](#)), further incentivizing lenders to focus on higher value loans.

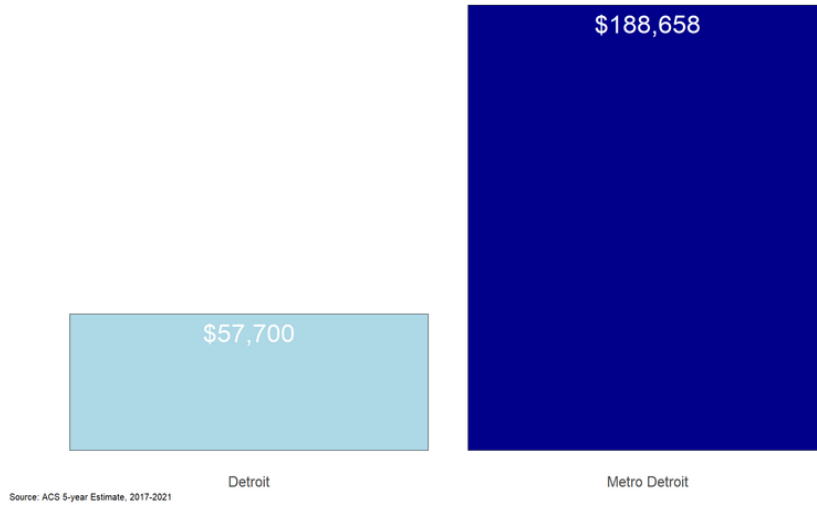
Finally, within small-dollar housing markets like Detroit borrowers must compete with investors willing to pay in cash. Sellers in these circumstances have incentive to accept cash offers because they can close faster, and a cash buyer has the flexibility to forego components of a typical property transfer, such as appraisals and inspections (McCargo, Bai, George, Stochak, 2018).

III. Detroit Housing Market

Any conversation involving housing and Detroit must reckon with race. Black migration from the South to the city helped its population peak at 1.8 million in 1950, but was almost immediately greeted with hostility from existing White residents ([Boyle, 2004](#)). Heavily redlined, Black residents were systematically denied opportunities to build wealth in the historic neighborhoods of Black Bottom and Paradise Valley[1], and restrictive covenants prevented the sale of homes to Black residents in the city's suburbs for decades ([Cassidy, 2019](#)).

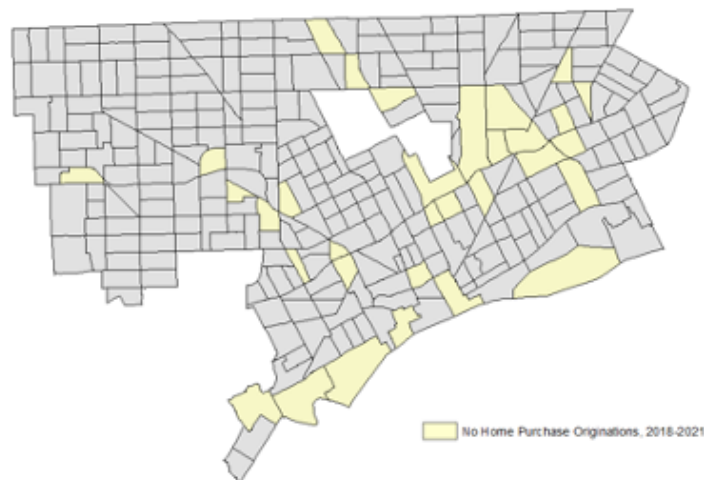
Today, Detroit is the nation’s largest majority-Black city, but as White residents left for the suburbs they took much of the city’s wealth with them. In 2021, the median value of owner-occupied housing in Detroit was \$57,700, versus \$188,658 for the three-county Metro Detroit region. Similarly, the median household income for White residents of Metro Detroit was \$75,995, while the median income for Black residents of Detroit itself was \$33,274 (Census Bureau, 2021).

Median Value Owner-Occupied Housing



Following the 2008 financial crisis the mortgage market in the city nearly vanished. In 2014, the number of originated home purchase mortgages was 5% of the volume it was in 2006 ([Homebuyer Ecosystem Working Group, 2016](#)). The Center’s recent report on mortgage availability in Detroit showed that from 2015-2019 fewer than 20% of residential property sales involved mortgage financing ([Palmer, Hernandez, & Shanks, 2021](#)). And from 2018 to 2021, 32 of Detroit’s 297 census tracts had 0 mortgage originations.

Where the Mortgages Aren't in Detroit

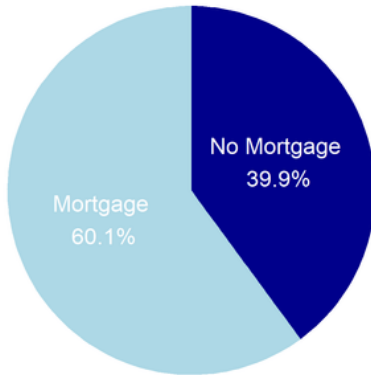


Source: HMDA Home Purchase Mortgages, 2018-2021

[1] For reference, visit Mapping Inequality: Redlining in New Deal America (<https://dsl.richmond.edu/panorama/redlining/#loc=5/39.1/-94.58&text=intro>). Black Bottom and Paradise Valley were categorized as “D”, or hazardous, by the Home Owners Loan Corporation (see also <https://gis-for-rcialequity.hub.arcgis.com/maps/UrbanObservatory::home-owners-loan-corporation-holc-neighborhood-redlining-grade-1/about>).

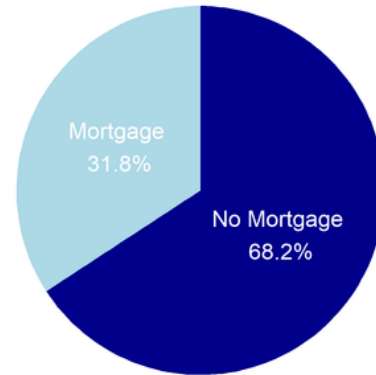
The pie charts below are like mirror images of each other and depict the percentage of owner-occupied housing that has a mortgage in Metro Detroit and Detroit itself. A vicious circle works to keep mortgage financing elusive: homes are valued too low to serve as collateral, so they go unsold, decreasing their value further, so they can practically never serve as a collateral for a mortgage (Eisen, 2020).

Metro Detroit Mortgage Rate, 2021



Source: ACS 5-year Estimate, 2017-2021

City of Detroit Mortgage Rate, 2021



Source: ACS 5-year Estimate, 2017-2021

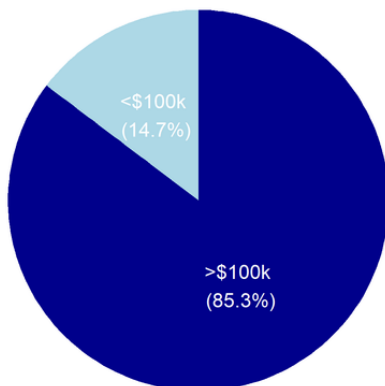
And yet, elusive as they are, mortgages are made in Detroit, and in the region. The lending floor for a home purchase mortgage is as low as \$5,000. But where \$5,000 mortgages are originated, who the borrowers are that receive them, and the wealth-building potential of these loans is unknown.

IV. Data & Methods

Data for this project came from the Home Mortgage Disclosure Act. We included all mortgage applications in the three-county Metro Detroit region (Wayne, Oakland, and Macomb) for years 2018 to 2021. Because we were interested in the characteristics of loans used to purchase homes, we filtered on home purchase loans, then on originated loans. The final dataset included records on 206,758 originated home purchase loans.

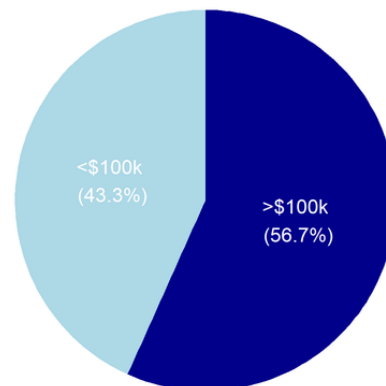
The figure below shows the percentage of loans that qualify as small-dollar according to the Philadelphia Fed (2022) in the Metro Detroit region and Detroit itself.

Metro Detroit Small-Dollar Mortgages, 2018-2021
 Out of 206,758 Home Purchase Loans



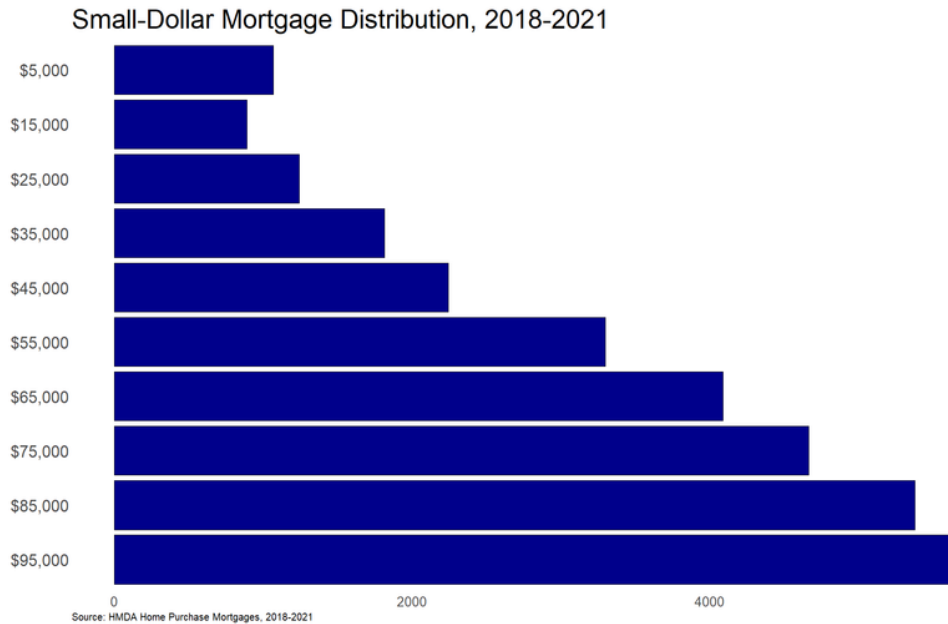
Source: HMDA Home Purchase Mortgages, 2018-2021

Detroit Small-Dollar Mortgages, 2018-2021
 Out of 8,580 Home Purchase Loans

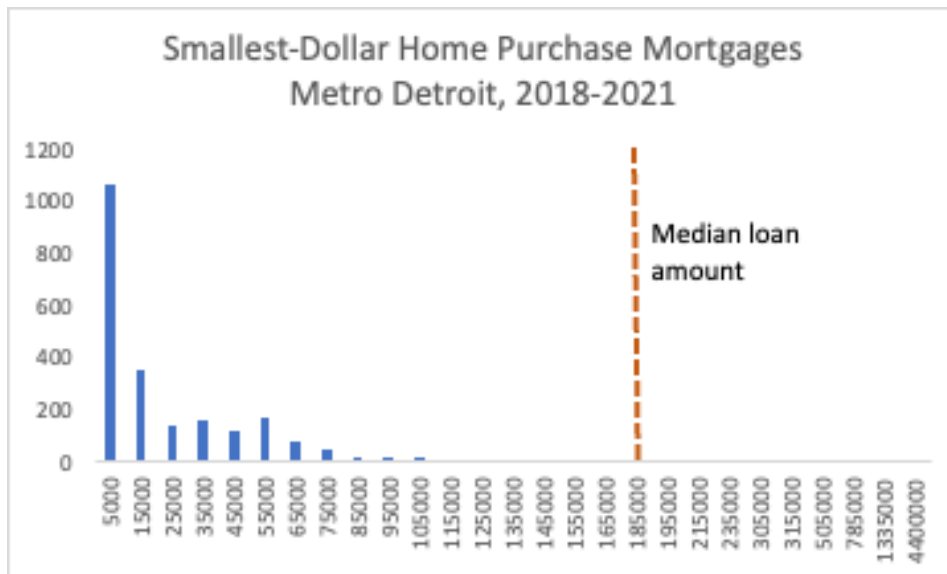


Source: HMDA Home Purchase Mortgages, 2018-2021

The figure below shows the distribution of loan amounts that qualified as small-dollar. Not all small-dollar loans represented the smallest-dollar loan in a given census tract.



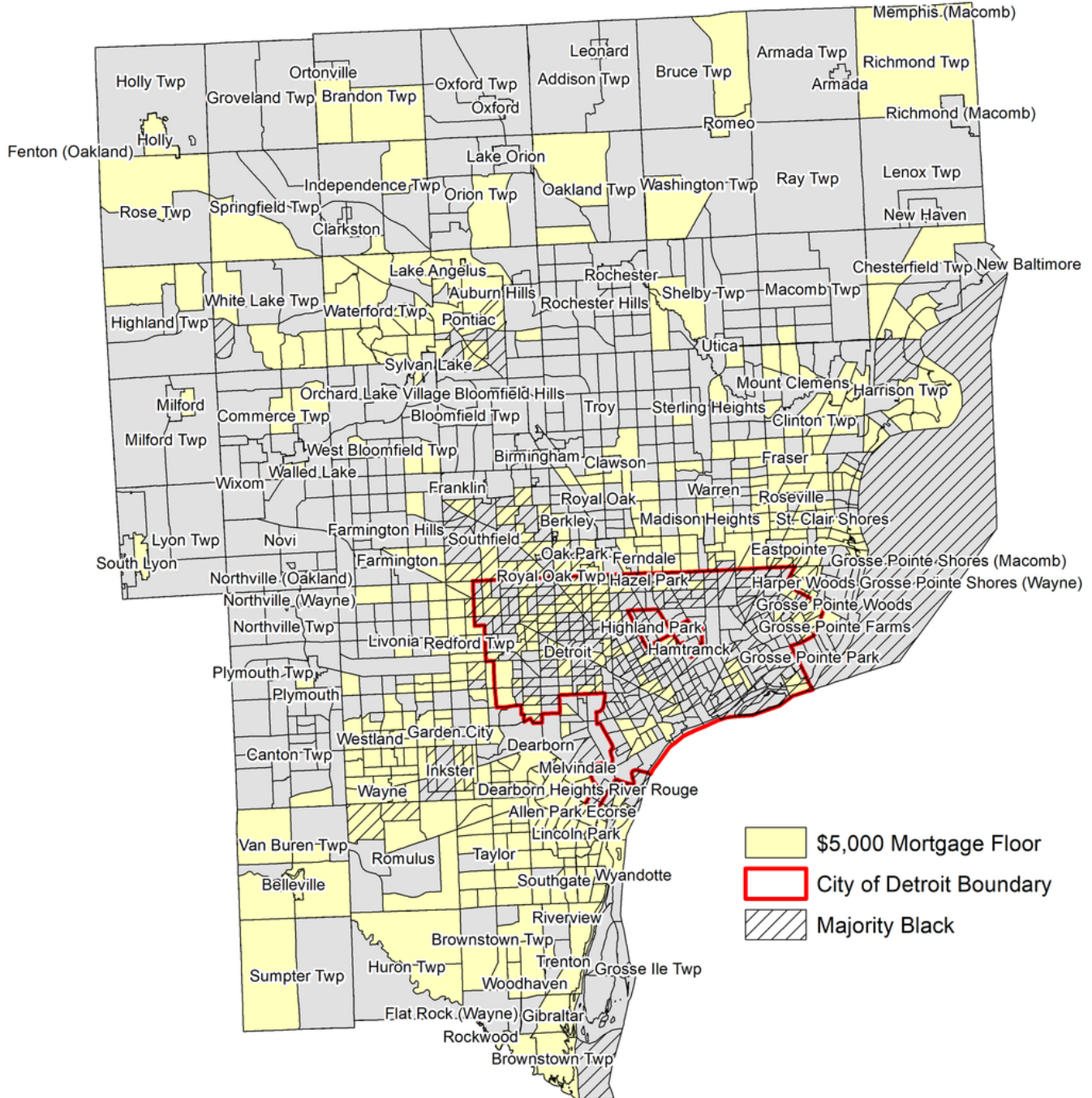
To identify the smallest-dollar mortgages, each individual census tract (1,166 total) was queried for its loan distribution. The figure below represents the distribution of smallest-dollar loans, 48% of which were in the amount of \$5,000.



Once we identified the dollar value of the smallest-dollar loan originated, we further queried all loans of that value in that census tract for the following information: the lender originating the loan, the race of the borrower receiving the loan, and the loan-to-value ratio of the loan. A total of 2,236 loans were identified in this manner. The estimated home value was derived from the loan amount and the loan-to-value ratio. Similarly, the estimated wealth from the home was derived as the difference between the estimated value of the home and the loan amount itself.

The map below visualizes where in the Metro Detroit region \$5,000 mortgages were originated. Broadly, they were less likely in majority-Black neighborhoods, as well as within the city of Detroit itself.

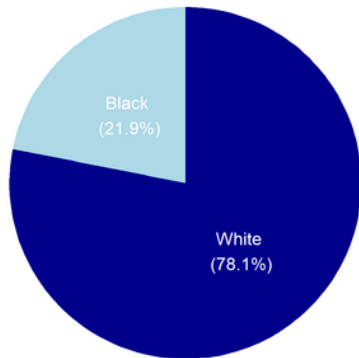
Where \$5,000 Mortgages Were Originated, 2018-2021



V. Individual Borrowers

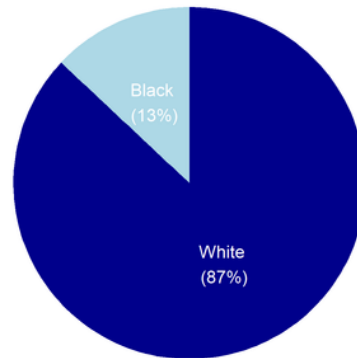
The percentage of Black borrowers receiving the smallest-dollar mortgage was slightly larger than the percentage of Black borrowers overall in the Metro Detroit region.

Metro Detroit Smallest-Dollar Mortgages, 2018-2021



Source: HMDA Home Purchase Mortgages, 2018-2021

Metro Detroit Home Purchase Mortgages, 2018-2021



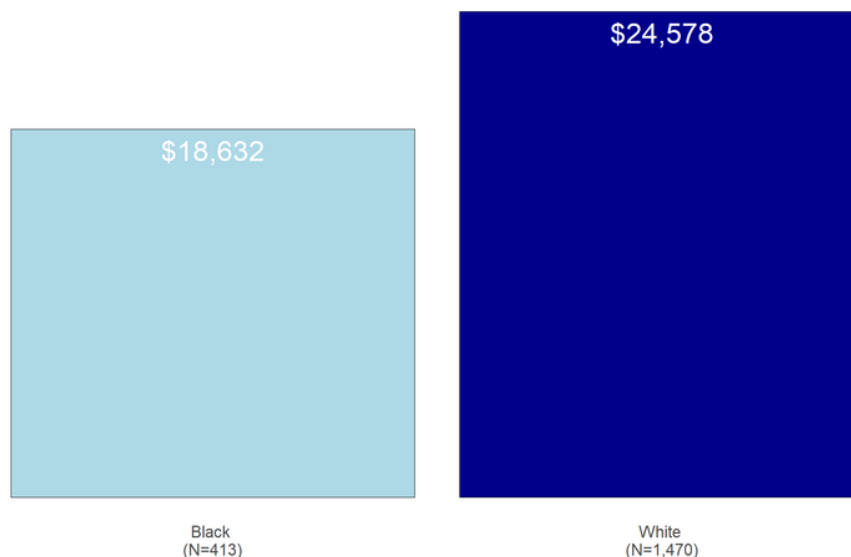
Source: HMDA Home Purchase Mortgages, 2018-2021

To measure the impact on the racial wealth gap, we first considered differences between Black and White borrowers, respectively, who received the smallest-dollar loan in a given census tract in the Metro Detroit region from 2018 to 2021.

A. Loan Amount

In terms of the loan amounts on these smallest-dollar mortgages, White borrowers received an average of \$24,578, versus \$18,632 for Black borrowers. This was a statistically significant difference, and was an indicator that White borrowers at this level of lending were pursuing more expensive homes than Black borrowers.

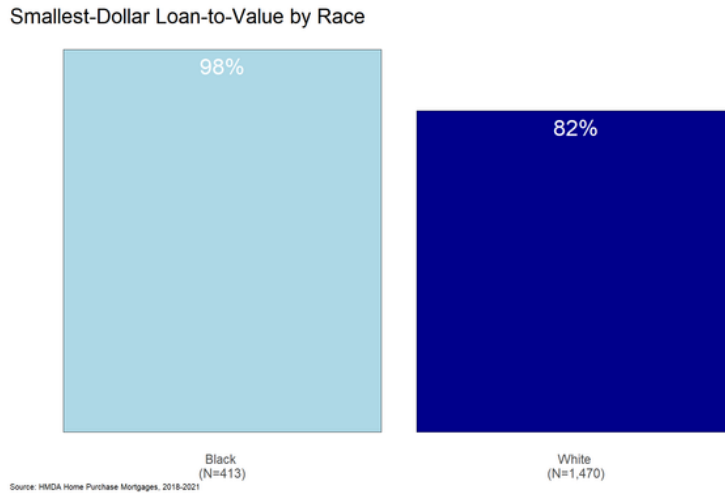
Smallest-Dollar Loan Amount by Race



Source: HMDA Home Purchase Mortgages, 2018-2021

B. Home Equity

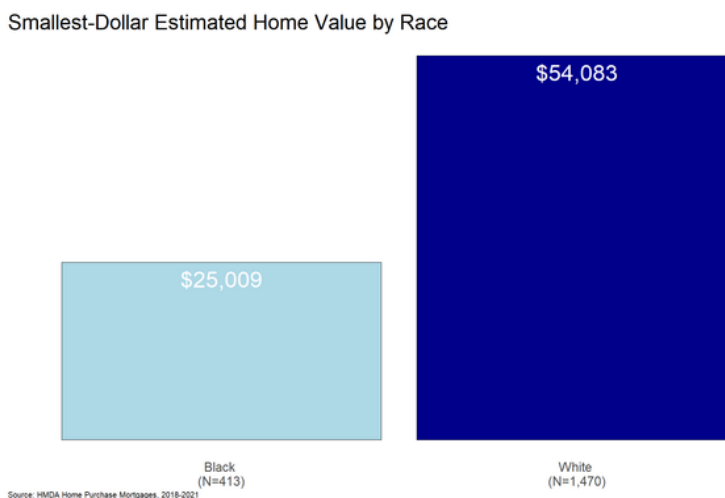
It was really important to investigate home equity at this smallest-dollar level of lending, because at the low end of the lending distribution the suspicion might be that borrowers can put more money down. As the chart below indicates, Black borrowers were significantly less likely to have much home equity at closing than White borrowers.



The implication here was that despite having lower loan amounts, on average, Black borrowers at the smallest-dollar level were more leveraged than White borrowers. They were more exposed if the values of their homes decreased, and they had less room to build wealth at closing.

C. Estimated Home Value

Using the loan amount and the loan-to-value ratio, it was possible to derive an estimate of the home value of homes purchased with these smallest-dollar mortgages.[2] We suspected that with their greater loan amounts, White borrowers were able to purchase homes of higher value. The chart below confirmed this.



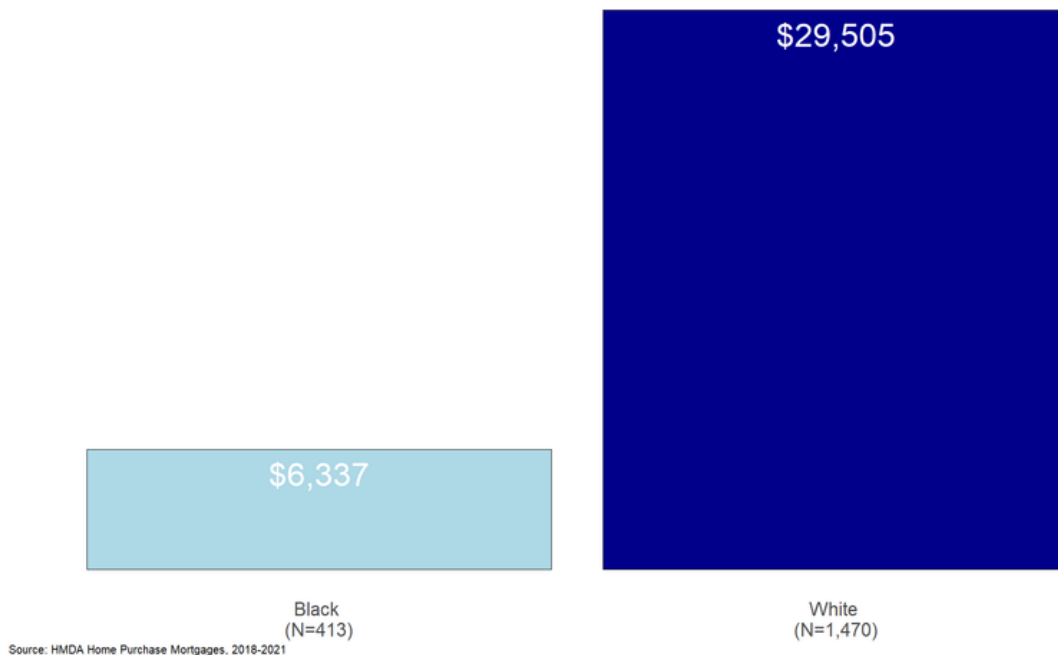
With higher estimated loan values, and greater home equity, it was also likely White borrowers at this level of lending also acquired greater wealth through homeownership than Black borrowers.

[2] HMDA applications do record the purchase value of the home. In querying each smallest-dollar loan in each census tract for the lender name, the applicant race, and the loan-to-value ratio, the purchase value was not recorded. It is possible for the true values of the homes to be different from the estimates presented here.

D. Estimated Wealth

Based on the home's estimated value, and the amount owed on the home, we calculated the estimated wealth borrowers gained at closing from homeownership. Using the smallest-dollar mortgage in a given census tract, at the absolute lowest end of the lending distribution, White borrowers were able to increase their wealth by an average of \$29,505, versus \$6,337 for Black borrowers.

Smallest-Dollar Estimated Wealth from Homeownership by Race



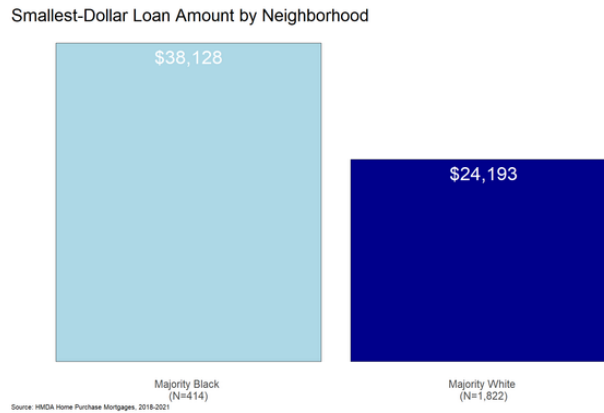
We find that the wealth-building potential at the smallest-dollar level was more than four times greater for White borrowers than it was for Black borrowers. The implication here was that lending at the smallest-dollar level perpetuated rather than reduced the racial wealth gap.

VI. Neighborhoods

Having examined borrowers for the impact of smallest-dollar mortgages on the racial wealth gap, we next examined neighborhoods. The purpose of examining neighborhoods was to consider the cost of buying in to homeownership from 2018 to 2021 in majority-Black and majority-White neighborhoods. And because Black borrowers are more likely to purchase homes in majority-Black neighborhoods, it is worth considering how expensive that is, and what the wealth-building potential of homeownership looks like for homebuyers in majority-Black and majority-White neighborhoods.

A. Loan Amount

The smallest-dollar loan amount originated in majority-Black neighborhoods was \$38,128, versus \$24,193 in majority-White neighborhoods. This could be taken as an indication that homes in majority-Black neighborhoods were worth more.

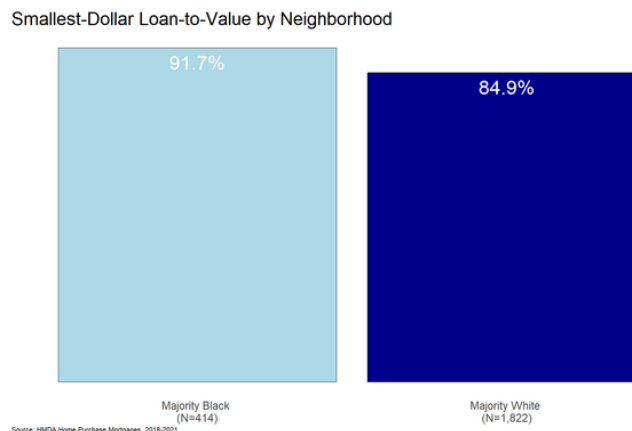


The higher average loan amount in majority-Black neighborhoods could also mean that buying in to homeownership in majority-Black neighborhoods was more expensive than majority-White neighborhoods. In other words, lenders may have been unwilling to make loans of smaller amounts in majority-Black neighborhoods, and so the cost of buying in to majority-Black neighborhoods was paradoxically higher than majority-White neighborhoods.

The higher average loan amount in majority-Black neighborhoods stood in contrast to the lower average loan amount to Black borrowers. This implies Black borrowers may have been attempting to buy homes in majority-White neighborhoods at a price they could afford. Looking forward, the higher average loan amount in majority-Black neighborhoods implies that Black borrowers who cannot afford to buy in to homeownership in majority-Black neighborhoods may over time be pushed out by those who can.

B. Home Equity

Now that we have examined the smallest-dollar mortgage amounts in majority-Black neighborhoods, it is again helpful to consider the average home equity in these neighborhoods. This will give some indication as to the wealth-building potential. The chart below shows the average loan-to-value ratio in a majority-Black neighborhood was 91.7%, versus 84.9% in majority-White neighborhoods.

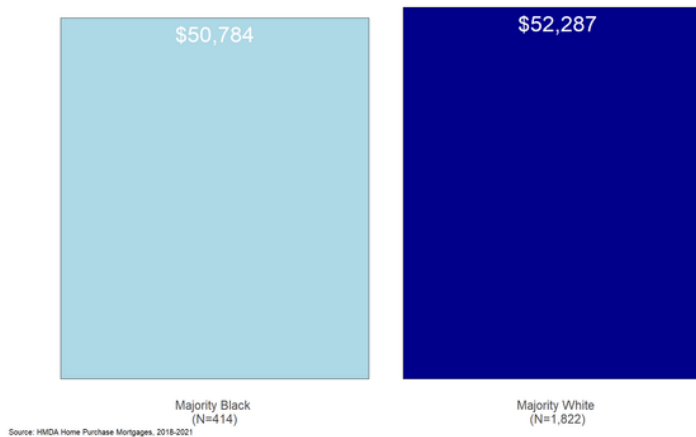


Perhaps as a result of the steeper cost to buy in to homeownership in majority-Black neighborhoods, homebuyers closed with less equity in the home on average than in majority-White neighborhoods.

C. Estimated Home Value

Equipped with the loan amounts and the loan-to-value ratios, we can once again estimate the home values in majority-Black and majority-White neighborhoods on these smallest-dollar mortgages. They were nearly identical. The average estimated home value in a majority-Black neighborhood was \$50,784, versus \$52,287 in majority-White neighborhoods.

Smallest-Dollar Estimated Home Value by Neighborhood

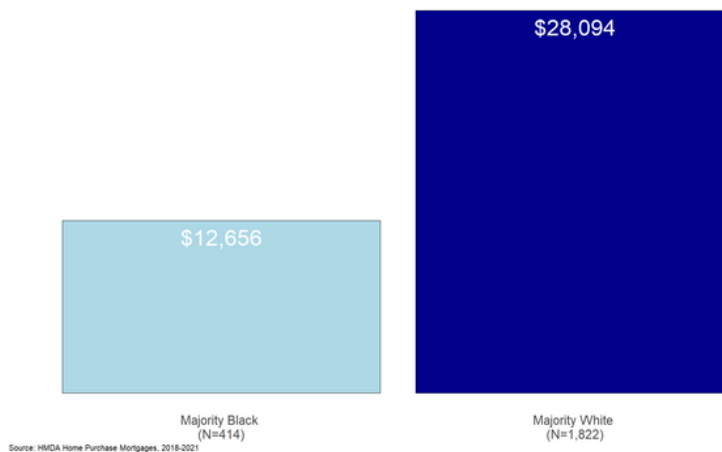


This finding was revealing. Despite requiring higher loan amounts to buy in to homeownership, the value of the homes in majority-Black neighborhoods was not greater than the value of homes in majority-White neighborhoods. This made homeownership even more expensive for homebuyers in majority-Black neighborhoods because they were effectively getting less for their dollar than buyers in majority-White neighborhoods.

D. Estimated Wealth

Finally, we can again estimate the wealth to homebuyers at closing by taking the difference of what is owed on the home from the estimated home value. Borrowers in majority-White neighborhoods stand to gain substantially over borrowers in majority-Black neighborhoods. On average, their homes were estimated to be worth \$28,094 more than what was owed on them, versus \$12,656 more in majority-Black neighborhoods.

Smallest-Dollar Estimated Wealth from Homeownership by Neighborhood



These findings suggest there was significantly less wealth-building potential to borrowers who use the smallest-dollar loan to purchase a home in a majority-Black neighborhood. Borrowers in majority-White neighborhoods had more than double the wealth value through homeownership.

These analyses at the neighborhood level are consistent with Darity and colleagues (2018), who argue homeownership is expensive, and is no guarantee to wealth accumulation. Buying in to homeownership in majority-Black neighborhoods in Metro Detroit at the lowest-lending level was still more expensive than it is in majority-White neighborhoods, and carried greater risk and less wealth-building potential.

VII. Conclusion

In this paper we have considered the smallest-dollar mortgages originated in the Metro Detroit region from 2018 to 2021 to better understand their potential to reduce the racial wealth gap. At this level of lending we were curious to see the loan amounts borrowers used to purchase home, whether these amounts left them highly leveraged, and the amount of wealth they were able to acquire at closing. We were also curious to better understand neighborhood-level dynamics to get an idea of how expensive homeownership is in majority-Black and majority-White neighborhoods in the region.

Our findings suggest Black borrowers were less likely to build wealth through homeownership than White borrowers at the smallest-dollar level of lending. Although their loan amounts were smaller, they had less equity in homes that were worth less than the homes White borrowers were able to purchase at this level of lending.

At the neighborhood level, we find that homeownership was more expensive in majority-Black neighborhoods. Lenders required a higher floor in majority-Black neighborhoods to purchase homes of roughly equal value as those in majority-White neighborhoods. This left borrowers less equity with which to grow wealth in majority-Black neighborhoods. In the long run, the cost of homeownership in majority-Black neighborhoods may change the composition of these neighborhoods. If homeownership is expensive at the smallest-dollar level, then the dynamics may only be worse closer to the median.

The racial wealth gap belies the notion of equal opportunity in the United States (Derenoncourt, Kim, Kuhn, & Schularick, 2022). The homeownership gap contributes to the racial wealth gap (Sullivan et al. 2015), but greater access to homeownership alone will not reduce it (Darity et al. 2018). The smallest-dollar level is perhaps the most accessible pathway to homeownership, but even at this level of lending the racial wealth gap is perpetuated not reduced.

Lessening the equity disadvantage Black borrowers face may do much to improve the wealth-building potential of homeownership. Greater down payment assistance, even at the smallest-dollar level, would provide Black borrowers with greater purchasing power and more room to close with equity in the home.

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CENTER FOR EQUITABLE FAMILY
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UNIVERSITY OF MICHIGAN

The Center for Equitable Family and Community Well-Being was established in 2020 at the University of Michigan School of Social Work. The mission of the Center is to utilize collaborative relationships and innovative practice to foster a more equitable distribution of power and resources.

For more information about our Center



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Contact Us
Center for Equitable Family &
Community Well-Being
1080 S. University Ave, Suite 4729
Ann Arbor, MI 48109
equity-for-all@umich.edu
Trwilli@umich.edu