Chapter 9

Federal Housing Policies: Part Two

Learning Objectives

- Understand how federal laws protect the home buyer from discrimination in sales and financing
- Understand the theories of discrimination

FAIR HOUSING ACT (1968)
- Part of Civil Rights Act of 1968
- Prohibits discrimination in sale or renting of residential housing on the basis of race, color, religion, or national origin
- Gender was added in 1974
- Designed to prevent “blockbusting”

EQUAL CREDIT OPPORTUNITY ACT (1974)
- Prevents discrimination in the credit market based on gender and marital status
  - Lender may not request information pertaining to marital status, number of children, family planning, among others
- Extended to protect on basis of age, race, national origin, religion, color, welfare recipient and those previously filing with ECOA

IDENTIFYING DISCRIMINATION
- Effects method - minority groups are underrepresented in the class of credit recipients relative to general population
  - If one group is less credit worthy than another then the effects method will find discrimination if credit decisions are applied equally to all applicants
- Intent approach - lender intends to treat minorities differently
- Practices method - lender fails to adhere to established guidelines
  - This may be the easiest to measure and regulatory focus is here

ECONOMIC THEORY OF DISCRIMINATION
- Preference for discrimination - having a “taste” for discrimination gives psychological satisfaction
  - Cannot exist in a competitive market (Becker)
- Economics of information - cost of obtaining information may be greater than the benefits
  - Easier to use marital status or young single males as a group, than to investigate each individual
Measuring Discrimination

- Could look at the denial rate by race or some other factor
- Could look at the default rate by race or some other factor
- "Minority homeowners take out a disproportionate share of subprime loans. The most recent Home Mortgage Disclosure Act data from lending institutions show that over half of African-Americans and 40 percent of Hispanics received subprime loans." (NYT by RON NIXON Pub: Dec 20, 2006)

HOME MORTGAGE DISCLOSURE ACT (1975)

- Discourages lending institutions from avoiding certain neighborhoods
- Followed by the Community Reinvestment Act in 1978 which encourages lenders to evaluate lending patterns in their defined community
- Discourages "redlining" or "FHAing" a neighborhood

FAIR HOUSING AMENDMENTS ACT OF 1988

- Prohibits discrimination in renting on basis of age, number and gender of children, and disabilities
- Housing includes apartment complexes, single-family homes, condos, co-ops, and mobile homes
- Exemptions for older adult communities
- Handicap may be physical or mental