THE CONTEMPORARY SYSTEM OF RACIAL RESIDENTIAL SEGREGATION

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WHERE WE LIVE:

THE COLOR LINE

The color line is carved deeply and measurably across the cityscape of America in the form of racial residential segregation. Race relations are formed and maintained around the resulting structural framework of residential segregation. As Charles S. Johnson wrote in the 1940s:

> The racial segregation in residential areas provides the basic structure for other forms of institutional segregation. It is a result of social and economic selection, of the direct operation of racial sanctions, and of the internal pull and cohesion of a community, and bears a significant relationship to those impersonal forces operating in the growth of a city.

Those words are no less true today. In *American Apartheid*, Douglas Massey and Nancy Denton identify residential segregation as the institutional apparatus that supports and binds together other forms of racial discrimination and subordination.

"Where We Live: The Color Line" is a series of reports addressing different facets of racial residential segregation, both nationwide and in Nashville, Tennessee. This collection, a research product of the Race Relations Institute of Fisk University, continues the legacy of Charles S. Johnson, the eminent sociologist and founder of the Race Relations Institute. It was Johnson's vision that sociological research, academic discourse, and broad dissemination of factual information and social theory were the keys to demonstrating the entrenched system of race discrimination and thereby driving social change.

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We are a nation segregated residentially by race, and this phenomenon arose, despite misperceptions to the contrary, in the twentieth century. Integration had prevailed in the first few decades after the Civil War, but around 1900, residential segregation began a rapid, dramatic increase. Through white prejudice in the form of violence, local legislation, private concerted acts of exclusion, corporate-level practices, and federal government policy, the color line was carved across the neighborhoods and sections of American cities.

The Fair Housing Act of 1968[1] and subsequent federal legislation made racial discrimination in the housing market illegal: real estate agents, landlords, buyers and sellers of homes, as well as those who finance and insure these transactions, are forbidden by law to discriminate on the basis of race. Since 1970, scholars have assessed a gradual decline in residential segregation levels across the United States, but the decrease is minimal, and current segregation levels, by any measure, are extremely high, far greater than the integrated residential patterns of a hundred years ago. On average, across American cities, Hispanics live in communities that are 46% Hispanic, blacks live in neighborhoods that are 52% black, and whites reside in neighborhoods that are 80% white (Lewis Mumford Center, 2001). The question arises, how does residential segregation persist? What forces or mechanisms perpetuate the high segregation levels of American cities?

Racial discrimination permeates the housing market and the mortgage lending industry, maintaining and carving anew the color line of residential segregation. The National Fair Housing Alliance, which collects information on housing discrimination from local, state, and federal government agencies and conducts its own testing as well, has estimated that more than 3.7 million violations of the Fair Housing Act occur annually, with more than 99% of them going unreported. Numerous studies, tests, and analyses reveal a myriad of practices and policies that treat homeseekers differently, depending upon their race. This report summarizes much of the research and evidence on racial discrimination in the housing market and the mortgage lending industry.

HOUSING MARKET DISCRIMINATION

Today's homeseeker approaches the housing market in relative seclusion and largely ignorant. That is to say, the pursuit of a home is typically not done in the presence of other homeseekers or outside observers, and the process is heavily reliant on others' provision of helpful and truthful information. Whether the homeseeker is looking for a place to rent or a house to buy, it is through one-on-one contact with a real estate agent or landlord that the homeseeker gains entry to this market, garners information about what's available, and finds what options are open or closed to him or her.

If and when discrimination occurs, how could one know? Outright refusal to sell or rent on the expressed basis of race is punishable by law and has gone the way of race restrictive covenants and "whites only" signs. It is now practically impossible, in the individual homeseeker's case, to verify or sometimes even detect covert and incremental acts which can have the same effect. For this purpose, local fair housing agencies, researchers, and the federal government employ a technique known as the "Fair Housing Audit" wherein testers, posing as homeseekers of equal status but different races, pursue the same housing units. These audit studies have produced a large body of empirical evidence of ongoing racial discrimination in the housing market.

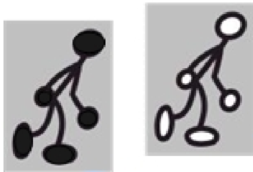
A typical housing audit study consists of teams of paired testers who pursue housing and thereby collect data on how they are treated in the housing market. In a paired test, two individuals—one minority and the other white—are assigned similar family and economic characteristics and pose as otherwise identical homeseekers, with comparable housing needs and resources (Turner, 2002). Both testers visit a real estate or rental agent to inquire about the availability of housing, making the same requests and providing the same information about themselves. The point of the test is to present a real estate or rental agent with the opportunity to provide the same information and access, irrespective of race, to similarly situated homeseekers. Each tester systematically records the information and assistance he or she receives from the agent.[2] If the minority and white are treated differently in important ways, such a test provides direct and powerful evidence of differences in the treatment minorities and whites experience when they search for housing.

Early audit studies were conducted on a city-wide basis by local housing agencies and other researchers, and generally found high levels of housing discrimination.[3] Beginning in the late '70s, the federal government, through the Department of Housing and Urban Development (HUD), has conducted a periodic, nationwide assessment of housing market discrimination. Both the 1977 Housing Discrimination Study (HDS) and the 1988 HDS found widespread discrimination against black and Hispanic homeseekers.[4] In general, housing discrimination was found in these studies to occur in roughly half of the instances in which a black or Hispanic homeseeker interacted with a sales or rental agent, and typically this discrimination was subtle and not easily detectable (Galster, 1992).

Non-white homeseekers are still discriminated against, on the basis of race, in the housing market.

Non-white homeseekers are still discriminated against, on the basis of race, in the housing market. The latest nationwide evidence of racial discrimination in the housing market comes from the 1999 Housing Discrimination Study ("HDS 2000"). This massive research effort used 4,600 paired tests in 23 metropolitan areas across the country.[5] In general terms, the HDS 2000 reveals that racial discrimination still persists in both rental and sales markets of large metropolitan areas nationwide, although its incidence has declined overall since the HUD study of 1988.[6]

Specifically, according to a complex and conservative system of data analysis, white homeseekers were consistently favored over blacks in 22% of tests in the rental market, and in 17% of tests in the home sales market (Turner, 2002). Whites were consistently favored over Hispanics in 26% of tests in the rental market, and in 20% of tests in the home sales market.[7]



Racial Discrimination on the Road to Real Estate and Rentals

Homeseekers, whether they are searching for a place to rent or a house to buy, will face different experiences depending on their race, and will face more and greater obstacles if they are not white.

Houses for sale in black neighborhoods are advertised less often and have fewer open houses (a)

Whites are more likely than blacks and Hispanics to be told that the advertised house or apartment is available (c)

Whites are more likely than blacks and Hispanics to be shown the advertised house or apartment (c)

Whites are more likely than blacks and Hispanics to be recommended and shown homes in addition to the advertised house or apartment (c)

Rental housing in black neighborhoods is often not advertised in major citywide newspapers (b)

Whites are less likely than blacks to be shown additional houses that are less expensive than the advertised house (h)

Real estate agents are less likely to recommend and show houses in predominantly white neighborhoods to blacks (c)

Whites are more likely than blacks to be told by real estate agents that they qualify as homebuyers (c)

Rental agents are less likely to offer rent incentives to blacks (c)

Rental agents are less likely to give favorable rent quotes or to make arrangements for future contact with Hispanics (c)

Whites are more likely than blacks to get advice from mortgage lenders on how to improve their loan applications (a)

Real estate agents are less likely to discuss downpayment requirements with blacks (c)

Real estate agents are less likely to offer help with financing, to recommend lenders, and to discuss downpayments with Hispanics (c)

Lenders more often communicate more loan options to white customers (e)

Lenders more often urge black customers to go to another lender (e)

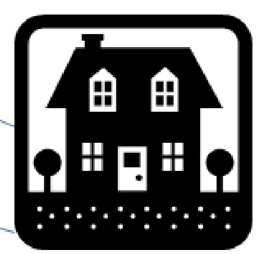
Lenders more often emphasize to black customers that application procedures are difficult (e)

Whites may be offered more options and more comprehensive policies for property insurance (g)

Appraisers sometimes undervalue property in minority neighborhoods, which can lead to mortgage denial (f)

Insurers often charge higher prices for property insurance in black neighborhoods (g)

Blacks and Hispanics are more likely—80% more likely—to be rejected for mortgages than equally creditworthy whites (d)



(a) Yinger, 1995.
(b) Fischer and Massey, 2004.
(c) Turner, et al., 2002.
(d) Munnell et al., 1996.
(e) Yinger, 1996.
(f) Schwemm, 1996.
(g) Squires, 2001.
(h) Ondrich, et al., 2001.

Racial steering is a particular type of housing market discrimination that is tested in HDS 2000 and other housing audit studies. A homeseeker is steered when an agent in the housing market differentially directs or guides the homeseeker toward particular neighborhoods and away from others on the basis of race or ethnicity (Galster and Godfrey, 2005). Agents may steer homeseekers in three ways: through showing or not showing homes, in person, to clients; through recommending or not recommending homes to clients; and by "editorializing", or providing gratuitous positive or negative commentary, about neighborhoods or areas that the client should or should not consider (Galster and Godfrey, 2005). Steering has been called a "particularly elusive type of discrimination, because it involves complicated geographic patterns that vary from one urban area to another, in addition to involving comments and subtle actions that are difficult to record and quantify" (Yinger, 1995).[8]

Racial steering is on the rise.

As difficult as it may be to detect and measure racial steering, it is nevertheless prohibited, by the Fair Housing Act of 1968 and subsequent amendments, for real estate agents to steer homeseekers geographically such that segregation is perpetuated or created and integration is discouraged. Specifically, real estate agents may not direct people to a particular community or neighborhood because of their race or ethnicity, discourage people from occupying any home because of the race or ethnicity of the persons in the surrounding neighborhood, fail to inform people of desirable features of a home or neighborhood in order to discourage their interest, or communicate to homeseekers that they would not be comfortable or compatible with neighborhood residents (Galster and Godfrey, 2005).

It is important to consider the critical dual effects of racial steering. It certainly constrains the housing choices of minority households when they are not given access to housing in some or all largely white neighborhoods. In addition, though, racial steering also restricts the choices of white households, in that white homeseekers who would consider or prefer living in an integrated neighborhood may not learn about available housing there or may be discouraged from selecting it (Yinger, 1995).

Marketing practices within the real estate industry provide an additional method of racial steering. The HDS and other investigations of racial steering raise the question of how houses in largely minority and integrated neighborhoods are marketed and sold. Studies show that real estate agencies often practice steering through the ways in which they do or do not market the homes for sale. Houses for sale in largely black neighborhoods are advertised less often, have fewer open houses, and have traditionally been more likely to be sold by a real estate firm that does not subscribe to a multiple listing service than are houses in largely white neighborhoods (Yinger, 1995).

Historically, the real estate industry has promoted homogeneity, and one critical facet of that sameness was race. Today, corporate American encourages and values homogeneity through systematic racial and economic profiling of neighborhoods, and these profile databases are said to dominate the processes employed by real estate developers, financial institutions, insurance companies, and retailers to decide where to develop, invest, and do business (Cashin, 2004).

Within these databases, all residential areas of the country have been segmented into hierarchically ranked categories according to characteristics such as race, socioeconomic class, occupation, age, and household structure. Such profiling schemes not only promote homogeneity, they provide the tools for perpetuating racial residential segregation.

Similarly, rental housing may be a racially segmented market as well (see Fischer and Massey, 2004, finding virtually no advertised units in major metropolitan newspapers of Philadelphia located in black neighborhoods), in which rental units in black neighborhoods are not advertised in the same city-wide publications in which units located in white areas are advertised. The result is, in effect, a bifurcation of the market for home sales and rentals, in which people who begin their housing search in largely minority neighborhoods are not able to gain full access to the available housing in all-white areas, and people who begin their housing search in largely white areas are not accessing largely minority and integrated areas (Yinger, 1995).

Numerous studies before the HDS 2000 uncovered racial steering in the rental and sales markets in the decades following the Fair Housing Act of 1968. Black apartment seekers, for example, were commonly shown different apartments or different sections of buildings or different buildings in a complex than were comparable whites; black house buyers were shown houses in neighborhoods with a higher percentage of black residents or closer to largely black neighborhoods than white house buyers were shown (Yinger, 1995).

A key finding of the HDS 2000 is that racial steering is on the rise. Blacks and whites in particular are far more likely now than they were a decade ago to be recommended and shown homes in different neighborhoods (Turner, 2002). The gross incidence of steering based on neighborhood racial composition rose between 1989 and 2000 by 10 percentage points for homes recommended to prospective homebuyers, and by 6 percentage points for homes shown to them (Turner, 2002). Aside from that marked increase in steering via showings and recommendations, editorializing—providing positive or negative comments—is by far the most prevalent method of black/white steering found by the HDS 2000. "In at least 12 to 15 percent of tests, agents systematically provided gratuitous commentary that gave more information to white homeseekers and encouraged them to choose areas with more whites and fewer poor households" (Turner, 2002).

Blacks and whites in particular are far more likely now than they were a decade ago to be recommended and shown homes in different neighborhoods.

The overlay of this significant increase in racial steering with the slight decrease in other modes of housing market discrimination raises perplexing questions, if not discouraging hypotheses. If black homeseekers are somewhat more likely to be treated favorably with regard to housing availability and home showings that they were a decade earlier, but at the same time are considerably more likely to be steered to predominantly black neighborhoods than are their white counterparts, then where is the gain? It would seem plausible that this increase in racial steering more than eliminates the modest inroads on other manifestations of discriminatory treatment in the housing market.

Apart from the audit studies—which utilize a particular housing-search protocol and thus do not examine the effects of varying search methods[9]—the ways in which homeseekers of different races approach the housing market may impact their results. Particularly with regard to black and white homeseekers, some researchers have focused on search processes and behavior, trying to arrive at some understanding of what persons actually do when they are looking for a house or apartment. One study, for example, revealed that blacks would be significantly less likely than whites to consult a real estate agent; instead, blacks are far more likely to search for housing by ads (Farley, 1996). The author of this study hypothesized that blacks' avoidance of real estate agents correlates with their belief that racial discrimination is widespread among agents in the housing market.

One approach to the housing market not covered by the HDS 2000 is when interested persons call the real estate agent on the telephone (unlike the HDS protocol, which has testers go to the agency in person). Some studies have particularly examined discrimination against callers whose voices sound ethnic, or what the National Fair Housing Alliance terms "linguistic profiling", and have found clear evidence of phone-based discrimination (see Fischer and Massey, 2004, for summary of studies), in cases of black and Hispanic test-callers.

Most recently, in an audit study of advertised rental housing in Philadelphia (conducted in 1999, 2000, and 2002), male and female testers made telephone inquiries using "white middle-class English", "black-accented English" (using a black-inflected pronunciation of words reflecting the southern roots of African-American speech), and "Black English Vernacular" (employing nonstandard rules of grammar and diction as well as distinctive pronunciations). Measuring "housing access"—defined here as the ability of a test-caller to be able to reach a rental agent *and* be told that a unit of housing is still available—they found that blacks gained less access than whites to rental units, and that the discrimination is even greater for females rather than males, for blacks who speak Black English Vernacular (posited to connote lower-class), and for rental units marketed by private landlords rather than professional rental agents or realtors (Fischer and Massey, 2004).

The Role of Economics and Attitudes

Explanations for continued high rates of residential segregation fall into three categories. The first—and the subject of this report—is discrimination in the housing and lending markets, which constitute "a web of institutionalized practices" (Farley, et al., 1997) that create and perpetuate segregated housing. Such discriminatory policies and practices are, according to the weight of social science evidence, the primary modern driver of racial residential segregation (see, e.g., Dawkins, 2004, and Squires, et al., 2002).

A second explanation is the "economic differentials" theory, according to which racial segregation and spatial concentration simply reflect financial status. This concept—that financial capability rather than race is the fundamental force for racial residential segregation—seems to be undermined by repeated findings that, while higher-status African Americans may live in neighborhoods with more whites than do those with less income and education, more middle-class African Americans live in less affluent and desirable areas than do middle-class whites (Squires, et al., 2002). Time and again, research has shown that racial economic disparities account for only a small portion of racial residential segregation (see Quillian, 2002).

A third explanation is broadly labeled the "neighborhood preferences" hypothesis, in which people are seen to prefer racially homogenous residential areas, and most of the research in this area focuses on white racial prejudice. It is true that white prejudice seems to have diminished over recent decades: according to a Gallup poll, in 1958, 44% of white respondents said they would move if a black person moved in next door, but only 1% of white respondents in 1997 said they would move (Ihlanfeldt, 2004, citing Ellen, 2000). Nevertheless, other surveys of white attitudes reveal lingering and substantial racial prejudice, as expressed through housing choices. Scholars widely consider that white attitudes on race "play a large role in explaining modern segregation" (Ihlanfeldt, 2004); it is argued that racial prejudice, along with discrimination in the housing and lending markets, continue to drive racial residential segregation.

A Tale of Two House Searches

For as much as the data from thousands of paired tests, mortgage application analyses, and other research studies reveal about the racially discriminatory nature of the housing market and mortgage industry, there are countless other individual experiences and infinite permutations of this reality. The following stories recount just two recent home-purchase encounters with racial discrimination.

Looking for real estate in a new city can be daunting, and all the more so when searching for an integrated neighborhood. The "Smiths", a white couple, moved from the Northeast to new jobs in Nashville; they had been connected by the new employer with a real estate agent and shopped for a house while here for the job interviews. They gave the agent a price range for the house search, and the agent proceeded to take them to "pricey" neighborhoods, says Ms. Smith, where the only houses in their range were dilapidated or otherwise undesirable homes.

"It was like, '"These are your people."'

They described to their agent the racially integrated neighborhood where they had lived and raised their children in a northeastern state. The agent did not talk about the racial composition of Nashville neighborhoods, but he did talk about schools—even though he knew that the Smith children were grown and living on their own on the East Coast—and Ms. Smith felt certain that the communication about schools was meant to convey a signal about race and class.

> He told us that the people we will work with live in these neighborhoods [where the agent showed them houses] because there are good schools. That kind of stuff was said. What he didn't really say was, 'if you're going to work in this place and you're going to know these people, these are the neighborhoods they live in and these are basically middle class white people,' I mean that stuff didn't need to be said. And, 'these are people that want good schools for their children, and these are their neighborhoods.' That was kind of the feeling. And, 'the person who had the job before you lived in this neighborhood, so you might want to live here.' It was more associational; it was like, 'These are your people.'

Frustrated, Mr. Smith went on the internet, and found houses in their price range that happened to be in an historically black area of Nashville that is currently home to Hispanic, African-American, and immigrant families, with a smattering of white households as well.

> My husband said to the realtor, 'Look at all these houses that are in our price range; can I see them?' And he went, 'Oh, well, um, you must be an urban pioneer.' Being urban pioneers, that clearly meant, people of a certain class and race buying a house where other people of their class and race did not live. That's clearly what it meant when he talked to us about it.

The agent, Ms. Smith says, was surprised but solicitous, and he said, "There must be somebody in our company that would be assigned to these neighborhoods; you know, they aren't my neighborhoods." He did then agree, though, to show them the houses they had found on line; ultimately the Smiths bought one of them.

The Smiths' advice, in the aftermath of this home search and what Ms. Smith refers to as the "coded language about schools and being urban pioneers"? "Go on the web," says Ms. Smith, or find a realtor "who knows the integrated neighborhoods in town and will take you there."

Black homeseekers may consider the threshold choice of shopping for a house in black neighborhoods or predominantly white neighborhoods, and may face daunting obstacles if they opt to buy property in a white neighborhood. The "Todds", a young black couple with a baby girl, were returning to Nashville after graduate work in New York City and a couple of years of work on the East Coast. They recall they were initially "dead-set" to live in a particular well-established black middle-class area of Nashville, a subdivision with beautiful homes and a strong sense of community. "I would prefer to live in an all-black neighborhood," says Mr. Todd.

They foresaw, though, certain downsides to settling in that locale. For one thing, the amenities were lacking. "Unfortunately," Mr. Todd explains, "developers don't see a market in the South gearing toward African Americans. So, the things that you like to have if you live in South Nashville around the Green Hills-Hillsboro area, all the amenities that are in that area, you don't get, they don't see you as that kind of person that they will market to." In addition, as a young couple starting a family, they were understandably cognizant of the investment aspect of home ownership. "As we were looking," says Ms. Todd, "the problem was, you wondered about the equity in your home and how rapidly that's going to rise, because there are no other things—other than the nice homes—that make the neighborhood attractive." And even though the black neighborhood they were interested in was full of beautiful houses, they were uncomfortable with some of the surrounding area, which was run-down, and the schools. "That's the trade-off," according to Mr. Todd, "that either you just don't have that true community feeling, or…you go and you get the community feeling and then you lose a lot of the other things that you want."

The Todds, still on the East Coast, began to consider housing that happened to be in predominantly white areas. They found on the internet a house they loved in a white area of South Nashville and put in a phone call to the listing agent. After four days and no return phone call, they tried again by contacting the agency's general office number, and subsequently the listing agent called them back. "We had an agent, and [the sellers' agent] gave our agent the run-around," says Mr. Todd. "Finally we got a contract, we submitted the contract, they wouldn't accept it. Full market price. They wouldn't accept it." The Todds and their agent were "baffled" when the sellers would not accept the contract. The sellers first contended that they had another buyer, but when the Todds' agent asked to see a ratified contract from the alleged buyer, the seller could not produce one.

It was suspicious to the Todds that they would submit a contract for the full asking price and get rejected, with the specter—but no evidence—of some other interested buyer. Ms. Todd was curious about it.

> I had so many of my friends upset about it, that I almost got my white co-worker to call; I'm like, 'Call and ask about that house,' because they were telling us that somebody else was interested and they were getting together a contract, and I'm like, 'Call and see if that's true.' But I didn't, because I felt powerless at that point, like even if I catch them in that, I'm looking for a house here, I'm not looking for a battle, my whole point isn't to catch you up in this lie and then say, 'you lied!' I'm trying to find a home; I'm not trying to do an experiment. But I was so upset and so curious to know that I almost asked [my white friend] to call. And he was like, 'Do you want me to call?'; he was so game for it, and I didn't, because if they said, 'Yeah, the house is available, would you like to take a look?', I don't know how I would have felt about it—I already felt emotional about it—I don't know.

When the Todds' agent complained to the seller that there was no reason not to sell them the house, the seller then suggested that he would sell to the Todds if the Todds would pay $40,000 more than the asking price for a finished basement. At that point, says Ms. Todd, "We felt like we were pushing this guy, and I thought, 'What is it about this situation?' So we just decided to walk away from it."

They also decided to get a different real estate agent, one who was older and had been in the business longer. "We knew that this was going to be a battle, says Mr. Todd, "and we were going to need a more experienced agent." But the Todds had already made the conscious decision to work with a black agent (and a black mortgage broker). Again, like the choice between black and white neighborhoods, it's a trade-off. Using a black agent tips off the sellers that the buyers are black, says Mr. Todd, and brings race into the transaction, if the sellers are inclined to see that as a factor. "[T]hat is the way they know you are ethnic; you know, white people don't use black agents. I don't care whether you buy or sell, you're not going to use a black agent. Period. So that's the first telltale sign of who your customer is, who your agent is." Nevertheless, to the Todds, it is very important to choose an African American agent. Says Ms. Todd, "The bad thing is, I felt like—and I don't know how serious or jokingly—I said, 'Well, this probably would have been a lot easier if we had a white agent.' I hate to say that." "It would be easier," acknowledges Mr. Todd, "but I would never do it…[b]ecause [black] agents don't get enough work. I'm being more conscious. If I'm going to spend at this level, there are people who can represent me."

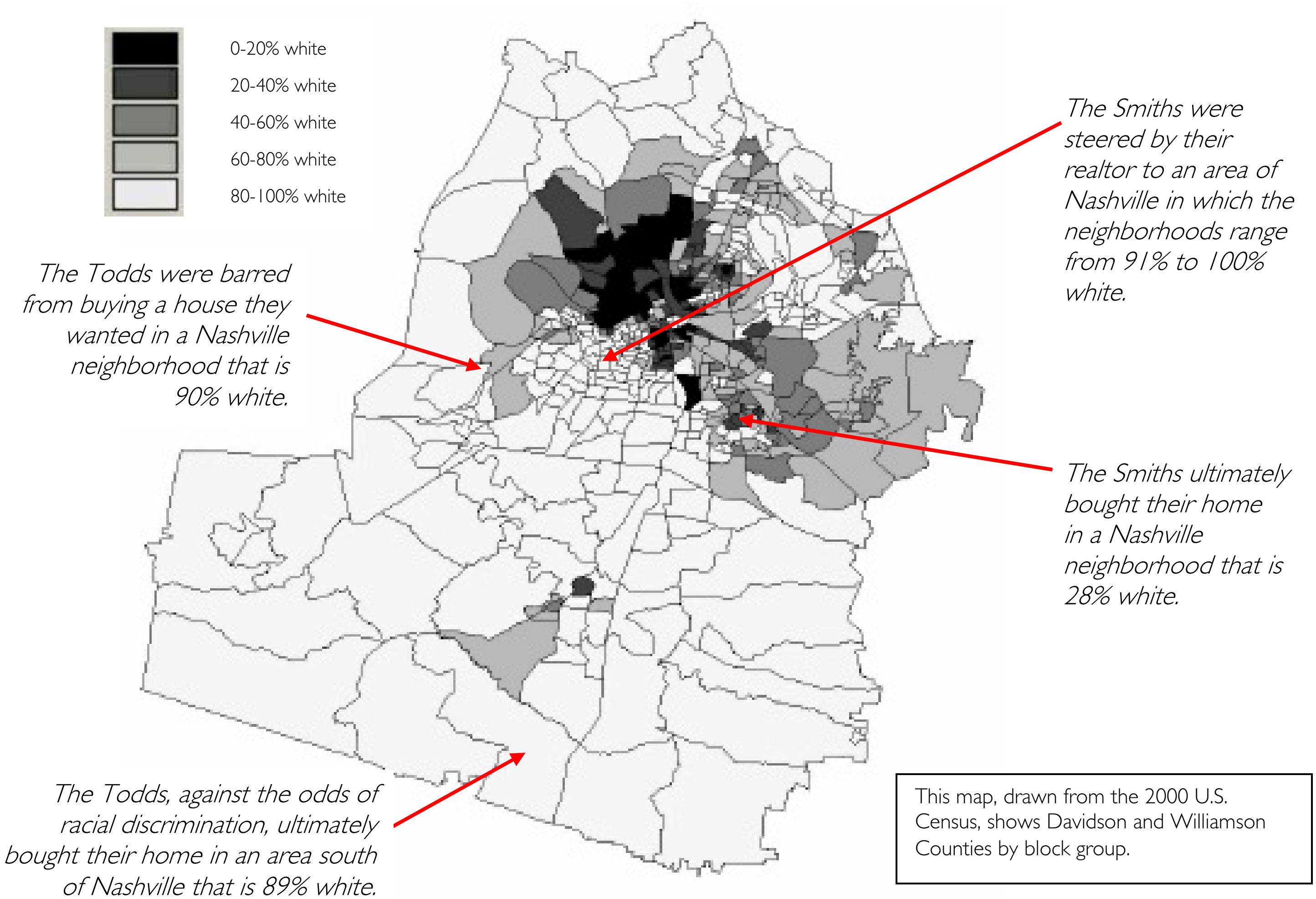
"They just flat out tried to refuse to sell us the house."

Having walked away from the South Nashville house, they resumed their internet search from their East Coast location, and found a promising house—a beautiful, 3,000-plus square foot, newly constructed home—being completed by a builder in Williamson County (adjacent to Davidson County, where Nashville is located). Mr. Todd recounts:

> This was it, this was the one that we wanted. We called our agent and said, 'Go look at it. You've been working with us, and you know what we like.' He called back and said, 'This is the one, you don't have to fly down.' [We submitted a contract and] began the negotiation process. And initially, it was decent at first. We weren't asking for anything more, they weren't asking for anything ridiculous. But I think they thought we were fishing. You know, they didn't have a buyer yet, [but] then when we got more serious, supposedly someone else got serious about the house as well. And they just flat out tried to refuse to sell us the house….And then we gave them a deposit, and he was like, 'No one's ever given us a deposit without seeing the house in person,' and I said, 'You have my check, you have my contract, what's the problem?' He said, 'I don't think you're serious.'

The seller, referring to the other interested buyer, refused to consider any negotiations, so the Todds, who had initially tried to negotiate for a refrigerator and window blinds, agreed then to pay the full price for the house, as is.

The builder had two smaller houses for sale in the subdivision and offered to show those to the Todds' agent, who brought his wife along to look. The agent and his wife felt certain that the Todds would not prefer the smaller homes; the builder continued to refer to another couple, but had no contract or deposit from them, and continued to reject the Todds' contract on the home they had chosen. The agent's wife finally said, "You're not selling them this house because they're black, I know that's what it is. I'm going to have to call somebody because I just think this is racism." At that point, the builder agreed to sell the house to the Todds.



This map, drawn from the 2000 U.S. Census, shows Davidson and Williamson Counties by block group.

The struggle did not end there. "It was the worst house-buying experience that anyone could have," Mr. Todd reflects. "And especially for a new company. This was a new builder—they're a very good builder now, a very popular builder—but at the time, we were like their eighth house that they had built, and they were entering a market, you know, into semi-custom homes, so they were looking to sell. And, literally, no interaction, no cordiality, at all." The Todds say that the builder never seemed to believe that they could actually afford the house and get a mortgage on it. "[T]here was a prejudice there," says Mr. Todd. "One is, we're young, we're the youngest people in our subdivision. And, we're African American." The builder expressed to the Todds' agent that allowing them to put a contract on the house would only take the house off the market and away from other potential buyers who were, presumably, more financially qualified: the implicit assumption was that the Todds were not. The Todds' mortgage broker became increasingly frustrated, saying he'd never been asked to provide all the documentation up front that this builder was asking for. "They just kept asking for more than the lender could even show," says Mr. Todd. "Our broker finally said, 'What's going on? We're not giving you any more information, this is it. If it closes, it closes.'...He was just furious." Says Ms. Todd, "They didn't even meet us at closing. They came earlier to do their portion, and when we came to close on the house they were already done. They dropped off the keys and everything, they were not present at all. We walked past them on the way in, and [the builder] didn't even …it was weird, it was really strange."

In an ironic epilogue to their home-buying experience, the builder became more acquainted with the Todds—and appreciative of them—after the sale, when minor repairs were necessary to the new home. For instance, the marble in the shower was broken and had to be repaired. "We said, 'As long as you're doing everything, that's fine, it doesn't bother me, I understand, this is the nature of your business,'" explains Mr. Todd. "[A]s with all new construction, there are always things that happen, and they have to come back in and repair. And after the entire process, the builder finally came around and said, 'You are the best customers that we've had, that have been so understanding.'"

Racial Discrimination in Mortgage Lending

Housing market discrimination contemplates the manner in and extent to which homeseekers, because of their race or ethnicity, are denied access to housing. It is about gaining full entry, commensurate with one's purchasing power, into the "shopping" aspect of the housing market. For the vast majority of potential homebuyers, though, home ownership is only possible through obtaining home loans. Thus, the venue of home finance and mortgage lending presents an additional arena in which information and access are critical commodities. Discrimination in mortgage lending is said to exist where minority applicants are more likely to be rejected for a mortgage than are similarly eligible white applicants; in other words, loan applications are denied based on the race of the applicant (Yinger, 1995).

Racial discrimination pervades the mortgage lending industry. An investigation of mortgage lending known as the "Boston Fed Study" revealed huge racial disparities in the acceptance or rejection of mortgage applications, and it remains the seminal research project concerning racial discrimination in the home finance industry. Earlier evidence had indicated severe racial disparities in mortgage denial rates, but those studies were inconclusive because they failed to account for certain critical variables—such as the applicant's wealth and credit history—that are considered in loan decisions.[10] The challenge, then, was to create a study in which all other variables could be accounted for and the impact of race, if any, on an applicant's success at getting a mortgage could be ascertained.

In the Boston Fed Study, researchers from the Boston Federal Reserve Board convened lenders and underwriters, national banking regulators, and HUD staff, to compile a list of every relevant variable—every characteristic of person or property that might possibly be considered—in the approval decisions of mortgage lenders. The point of the study was to examine whether financial institutions accord equal treatment to mortgage applicants who are similarly situated but are of different races.

The Boston Fed Study revealed that black and Hispanic applicants were 80% more likely to be turned down for mortgages than white applicants with the same personal and property characteristics (Munnell, et al., 1996).[11] The Boston Fed Study is admittedly limited in space and time: it assessed loan applications in the Boston metropolitan area in 1990. To date, though, it still stands as the largest and most complete study of mortgage lending discrimination in the country, and there is no indication that the discrimination laid bare by the Boston Fed statistics has lessened. In fact, subsequent HMDA data continue to show racial disparities. For conventional home purchase loans in 2000, for example, blacks were twice as likely as whites to be rejected, and Hispanics were 40% more likely than whites to be turned down (Ross and Yinger, 2002).

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Likewise, a few other localized examinations of mortgage lenders have revealed racially discriminatory practices.[12] A Pulitzer Prize-winning series of newspaper articles in 1988 entitled "The Color of Money" documented discriminatory practices of lending institutions in Atlanta and the lack of mortgage funding for Atlanta's black neighborhoods. A decade on, scholars conducted a follow-up study of Atlanta's mortgage lending patterns and found, despite efforts to rectify discriminatory lending practices and despite evidence of slight improvement in overall access to mortgage capital among residents of black neighborhoods, the ongoing existence of substantial disparities and inequalities (Wyly and Holloway, 1999).[13] In 1998, Atlanta's depository lenders made 4.2 as many conventional home purchase loans per owner-occupied unit to middle-income white neighborhoods as they did to middle-income black neighborhoods; a decade before, the ratio had been 5.2.

It is important to note that agents in the lending industry are emphasizing race—specifically, the characteristic of non-whiteness—above other "risk factors" in mortgage loan applications. The graph below shows the relative contribution of key considerations in the decision to grant or deny loan applications, as determined in the Boston Fed Study. The two application characteristics that most likely lead to loan rejection are a previous record of bankruptcy and the denial of mortgage insurance; either of those conditions outweigh race as a predictor of mortgage denial. Beyond

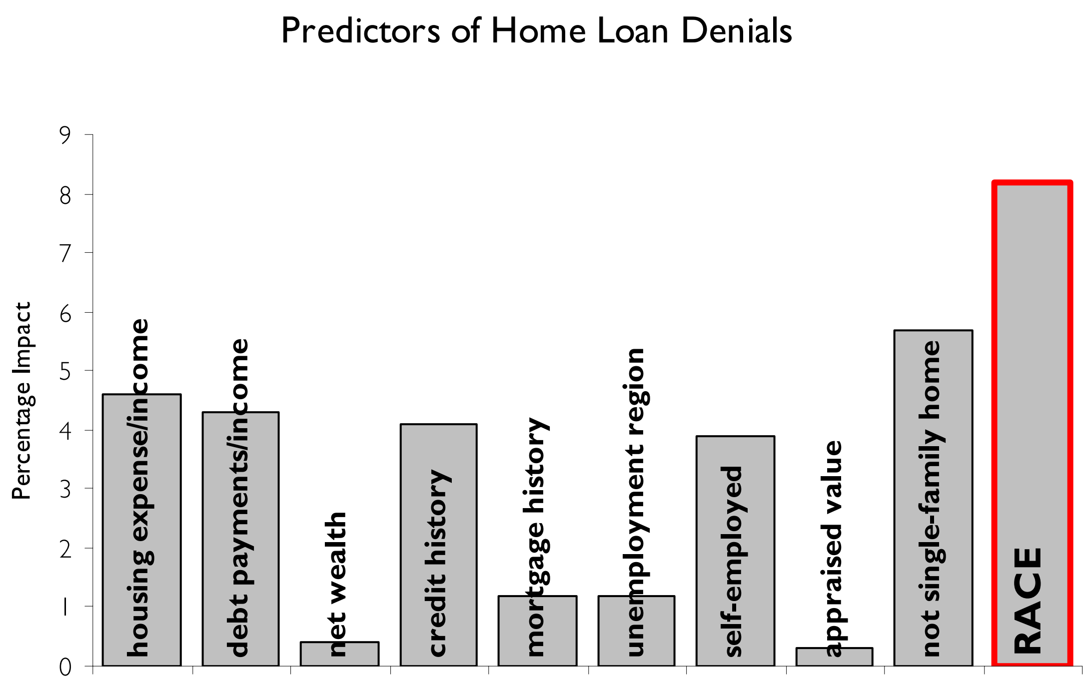
Racial Differences in Mortgage Rates

Studies have revealed disparities in the interest rates charged to white and black homebuyers. Shapiro (2004) cites a one-third point higher rate, on average, on home mortgages for blacks; this can result in tens of thousands of dollars' difference over the course of a thirty-year loan.

Another recent study focused on "overages", which reflect the difference between the homebuyer's final interest rate and the "lock-in" rate set when the lender first commits to making the loan. While they found no significant difference across racial groups on overages in conventional loans, there was a significantly greater occurrence of overages for blacks and Hispanics getting government-insured loans—and the vast majority of mortgages granted to blacks and Hispanics are government-insured (Ross and Yinger, 2002).

Predatory lending practices represent yet another realm of opportunity for racial discrimination in mortgage rates. There is a need for more research—attending to the increasingly complex market of loan packages and loan pricing—in the mortgage interest realm.

those two rather extreme characteristics, however, the applicant's race is the consideration that is most predictive of loan rejection. This graph shows that the traditional market forces generally understood as impacting loan decisions, such as income, debt, wealth, and credit history, are not the biggest influences on lenders in approving or rejecting mortgage applications. The Boston Fed Study data therefore reveal that, in the mortgage lending industry, race trumps market forces.



The Boston Fed Study and other examinations of racial disparities in mortgage lending focus on the decision to accept or turn down a loan application, and are limited to that snapshot view. Munnell, et al. (1996), in their analysis of the Boston Fed Study, make clear that this particular analysis is abstracted from and does not reflect discrimination that may occur elsewhere, either in the housing market or in other aspects of American society.[14] There are, in addition, other facets in the process of obtaining a loan in which lenders can act discriminatorily, and differential treatment can occur at other points in the lending process.[15] An investigation of Decatur Federal Savings & Loan of Atlanta, for example, is notable for its revelation of discriminatory techniques in the lending industry; the Justice Department found that whites, but not blacks, were coached on particular ways to improve their creditworthiness so that they could meet underwriting standards (Yinger, 1995).

Minorities may be dissuaded from even submitting mortgage applications; racial discrimination at that "prescreening" juncture is not measured by the Boston Fed Study, HMDA data, or other research on loan approval discrimination (and is indeed difficult to measure at all) (Munnell, et al., 1996). It may be posited, though, that successful efforts by lenders to preclude minority mortgage applications constitute an additional facet of the racial discrimination in loan approval. An assortment of audit studies—wherein paired white/minority applicants with otherwise comparable characteristics "test" the home loan market for racial discrimination—have uncovered various ways in which lender behavior can discourage potential minority applicants from attempting to get mortgages: lenders have appeared less interested in giving information to black than to white customers; lenders have urged black customers, but not whites, to go to another lender; lenders have emphasized to black customers, but not to whites, that application procedures are onerous and complicated; and lenders have appeared to be more helpful, by communicating more options, to white customers than to black customers (Yinger, 1996).

Redlining is a particular form of racial discrimination based on the location of the property rather than the race of the individual. It has its roots in the historical practice of drawing red lines, literally, on maps around areas of cities where minorities lived, for the purpose of denying home mortgage financing (and, later, property insurance) to those redlined areas.

Modern-day redlining takes two forms: process-based redlining exists "when otherwise comparable loans are more likely to be denied when they apply to housing in a minority rather than a white neighborhood"; and outcome-based redlining is "when minority neighborhoods receive a smaller flow of mortgage funds than comparable white neighborhoods". Both are illegal. The recent research in redlining reveals ongoing outcome-based redlining—that is to say, mortgage applications are more likely to be rejected if they pertain to properties in neighborhoods that are less predominantly white—but yields inconclusive evidence of the existence and extent of process-based redlining (Ross and Yinger, 2002).

Another facet of the mortgage approval process is property insurance: a property insurance policy is essential to obtaining a mortgage and owning a home. Allegations abound of racial discrimination against homeowners in the insurance industry, including numerous lawsuits and settlements, and the particulars resemble the discriminatory treatment found in the real estate and mortgage lending arenas.[16]

Paired testing studies—wherein white and nonwhite testers pose as consumers from white and nonwhite neighborhoods who are equally eligible for property insurance in terms of their financial characteristics, the structure and condition of the homes, and the risk level of the neighborhoods—have revealed that whiteness increases one's property insurance options, makes the process of obtaining property insurance easier, garners more advice and communication about options, and saves money on insurance. Among other things, insurers were found to charge higher prices in nonwhite areas, offer more comprehensive policies in white communities, and apply standards differently (*i.e.*, tell a black tester that a home was too old to qualify for insurance coverage, but give quotes on houses of the same age to white testers) (see Squires, 2001, for a summary of the paired testing studies).

Additionally, the National Association of Insurance Commissioners has analyzed insurance practices across communities in 33 metropolitan areas across the country. This study as well found disparities between neighborhoods according to racial composition (even after controlling for other demographic factors), including explicit instructions to agents to avoid minority communities, subjective language in underwriting manuals that negatively stereotype minority neighborhoods, concentration of policies and agents in predominantly white areas, and underwriting policies (*i.e.*, requirements regarding minimum value and maximum home age) that have a disparate impact on minority communities (Squires, 2001).

Whiteness increases one's property insurance options and saves money on insurance.

Property appraisals are yet another facet of the mortgage approval process in which racial discrimination constrains the access of minority homeseekers. Like property insurance, a sufficiently high property appraisal is an essential prerequisite to mortgage approval, and a low appraisal can derail a mortgage application. Racially discriminatory appraisal practices have been shown to result in the undervaluation of property in minority neighborhoods, which in turn leads to mortgage denials by lenders in those neighborhoods (Schwemm, 1996).

THE TWENTY-FIRST CENTURY COLOR LINE

Any system is constituted by its minutia, the nuts and bolts, the little components that together make up the whole working conglomerate. Just as Jim Crow was made up of every single little retailer on one street after another, and every back seat on every bus in every city. Housing market discrimination, another system, is composed of similarly small elements, each a singular act of exclusion, like the single whites-only sign on the rusty water fountain in the sleepy southern town, replicated ubiquitously and affecting individuals on a constant basis.

Research studies prove that the minority homeseeker faces racial discrimination from the moment he or she begins to look for a house or apartment, throughout the home-search process, and culminating, for the potential homebuyer, at the point of having an 80% greater likelihood of being turned down for a mortgage simply by virtue of being nonwhite. The many increments may seem minor, ripples in an ocean of housing options, some barely detectable, others strongly suspected but unverifiable, and still others blatant and definitive. The research, however, lays bare much of the discrimination; nearly 40 years after passage of the Fair Housing Act, researchers continue to find that individual homeseekers of minority races encounter numerous obstacles in their pursuit of housing, disproportionate to those met by their white counterparts.

These obstacles, by themselves or in combination with other deterrents, determine if a homeseeker gets a home and where that individual homeseeker lives. Taken cumulatively, these limits on access determine largely where whole races of people live. In short, all these individual discriminatory acts, taken together, constitute the contemporary system of residential segregation. The color line, carved across neighborhoods and sections of American cities during the twentieth century, is thus perpetuated and even carved anew in the twenty-first.

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[1] This civil rights legislation, groundbreaking in its own right, came more than 100 years after the dictate of the Civil Rights Act of 1866, that "all citizens shall have the same right as is enjoyed by white citizens to purchase real property."

[2] John Yinger (1995) describes the four tools of the audit design: matching, assignment, training, and timing. The matching component involves the selection of tester teammates with the same fixed characteristics of gender, age, and general appearance; persons with an unusual appearance are not selected. The assignment aspect further creates the comparability of tester teammates. Both teammates in any paired test are assigned similar income, assets available for a down payment, occupation, marital status, and number of children. Their assignments are based on the specific home they are going to inquire about; their assigned characteristics make them fully qualified for the particular home. The training component minimizes differences between paired teammates in their inquiries and behavior, emphasizes accurate record-keeping, and ensures that the agent—rather than the tester—would determine which housing units to recommend or show. The timing aspect is concerned with teammates visiting the agency within a short time of one another, so that the circumstances of the housing market and the particular advertised home are as similar as possible.

[3] For example, a 1971 audit study in Palo Alto, California, revealed discriminatory treatment of blacks at 50% of the city's apartment complexes, and a 1972 audit study in Baltimore found racial discrimination in more than 45% of the cases (Massey and Denton, 1993). Audit studies of various large metropolitan areas—including Chicago, Boston, Denver—in the '80s revealed similar levels of discrimination (Massey and Denton, 1993; Yinger, 1995). Indeed, a

survey of over 70 audit studies conducted in that decade concluded that "racial discrimination continue[d] to be a dominant feature of metropolitan housing markets in the 1980s"; using conservative measures, George Galster (1990) found that black homeseekers averaged a 20% chance of experiencing discrimination in the sales market and a 50% chance in the rental market.

[4] Due to a change in methodology between the '77 and '88 studies, comparison of the two was inconclusive (Massey and Denton, 1993; Yinger, 1995). At a minimum, though, scholars could find little evidence that discrimination had declined between the first and the second HDS.

[5] The bulk of paired tests were black/white and Hispanic/white. The HDS 2000 also included paired tests comparing whites to Asians, Pacific Islanders, and Native Americans (see Executive Summary, Discrimination in Metropolitan Housing Markets, Phases II and III), as well as to persons with disabilities.

[6] Hispanic renters still face the same incidence of discrimination today as was found in the 1988 study. For Hispanic homebuyers, as well as for black homebuyers and renters, the HDS 2000 reveals a modest decrease from the previous study (Turner, et al., 2002).

[7] The analysis and reporting of differential treatment in the housing market is hugely problematic (Yinger, 1998, for a general discussion of measures). At its most basic level, the housing audit approach ought to present us with a view of how often minority and white homeseekers—who, aside from their race/ethnicity, are the same—are treated differently. Instead of focusing merely on differential treatment, however, scholars analyzing audit studies calculate a net measure of discrimination. For example, if 80 out of 100 paired testers were treated equally, and in 12 of the pairs the white tester was favored and in 8 of the tests the minority tester was favored, researchers focus not on the 20% rate of differential treatment based on race, nor do they highlight the 12% of cases in which the white homeseeker was given preferential treatment. Rather, the net amount of 4% is reported as the level of discrimination in that case. This is because the gross measure of unfavorable treatment—the number of audits in which the minority tester is treated less favorably than his white teammate—arguably includes random instances of differential treatment unrelated to racial discrimination, as when, for example, an apartment is rented after the white tester sees it but before the minority teammate inquires about it. It is further argued that—based on the presumption that minority testers would never be purposefully favored over their white counterparts—the number of audits in which the minority testers are favored represents the amount of instances in which differential treatment may be attributed to random, not racially discriminatory, causes. Accordingly, the true measure of the incidence of discriminatory treatment would, by this argument, be the net difference between the number of times that the white tester is favored and the number of times that the minority tester is favored. Discrimination, in the audit studies, is defined as "systematically less favorable treatment of the auditors in the protected class", and this approach would mean that random circumstances account for the 8 favored minority testers (and presumably, then, 8 of the favored white testers).

The net measure is conservative, almost certainly understating the incidence of racial discrimination, and yet it is the net measure that is reported. Quite simply, the presumption of randomness ascribed to favorable treatment of minority testers is incorrect. When, for example, real estate agents decline to show homes in largely black neighborhoods to white testers (but not their black teammates), this registers as favorable treatment of the minority but is assuredly not random, nor is it necessarily "favorable". To net out that favorable treatment is to completely discount that type of discrimination.

On the other hand, ignoring the randomness of some favorable treatment would overstate discrimination. An alternative approach strikes a sort of compromise between the gross measure and the net. Some scholars employ estimations of how much differential treatment can be attributed to random circumstances. They thereby arrive at an approximate figure for the incidence of discrimination that generally is somewhat less than the gross measure, which may overstate discrimination, but higher than the net measure, which understates it. If we acknowledge that not all differential treatment is random, then this alternative approach—in which an attempt is made to account for an estimated occurrence of random differences and attribute the rest to discriminatory treatment—seems to provide a more accurate analysis of the extent of racial discrimination in the housing market.

The proven occurrence of racial discrimination in the housing market remains. Overly conservative estimates of discrimination, as well as disputes over alternative approaches to the numbers, tend to obfuscate the stark fact of unequal treatment in the housing market on the basis of race, and tend to distance us from "the principle that no citizen should face unfavorable treatment in the housing market (or any other market) because of the ethnic group to which he or she belongs" (Yinger, 1998).

[8] Galster and Godfrey (2005) delineate three types of steering. Segregation steering involves spatial patterns of home showings in which areas shown to minority homeseekers have larger—or growing, or more proximity to concentrations of—specified minority populations than areas shown to whites. Information steering is when

minority and white homeseekers are shown homes in spatially different neighborhoods, even if they are shown the same number of homes. Class steering involves spatial patterns of home showings in which minority homeseekers are shown homes in lower socioeconomic areas than the areas to which white homeseekers are taken; this has racial/ethnic implications to the extent that minority homeseekers are directed to lower-class neighborhoods than their economically equivalent white counterparts.

[9] For all that the paired tests of the housing market reveal, there is much that these studies do not tell us. For one thing, the audit results do not discern the extent to which housing market discrimination actually causes racial residential segregation (see Dawkins, 2004, for discussion of causal hypotheses). "These audit results imply that the additional search costs for African American families to move into white areas are fairly substantial, but they do not tell us the number of African American families that are deterred because of these difficulties" (Quillian 2002). Secondly, because the HDS sample of housing comes from major metropolitan newspapers and because housing in largely black neighborhoods is rarely so advertised, housing stock in black neighborhoods is underrepresented in the studies (Yinger, 1998). Third, the question remains of how much discrimination the members of minority races encounter given their current incomes and residential location; audit studies measure the amount of discrimination for minorities with incomes and housing search patterns similar to whites (Yinger, 1998).

[10] The Home Mortgage Disclosure Act (HMDA), as amended in 1991, required lenders to report loan denial rates by race/ethnicity and revealed that minorities were more than twice as likely to be denied a mortgage as whites. The question remained, though, of how much of that disparity was actually attributable to unreported factors aside from race.

[11] This study—which has been both criticized and defended profusely, and imitated in limited fashion but never fully replicated—generated a scholarly storm of controversy. Stephen Ross and John Yinger (2002) devote considerable analysis to the critics' claims and finds that the minority-white disparity in the Boston Fed Study's data does indeed provide strong evidence of discrimination in loan approval. Specifically, the large minority-white disparity cannot be explained by data errors, misclassification, omitted variables, or the endogeneity of loan terms. Further, while underwriting standards vary across lenders, accounting for this variation has no impact on the estimated loan approval disparity. John Goerring and Ron Wienk (1996) decried the fact that needed research had been left undone, and Yinger (1995) pointed out that "only a thin strand of evidence exists upon which to build national and local policies"; more recently, Ross and Yinger (2002) highlight the failure to collect the necessary data on the part of federal financial regulatory agencies, secondary mortgage market institutions, and HUD.

[12] See, for example, the study by Kerwin Kofi Charles and Erik Hurst (2002), which reproduced Munnell's analysis of the Boston Fed Study and found blacks were 73% more likely to be rejected than whites.

[13] These scholars additionally point out that both "The Color of Money" and their 10-year follow-up study were designed to be very conservative in that they focused on neighborhoods that were least likely to have differences related to racial composition, suggesting therefore that an examination of the broader metropolitan Atlanta area might well reveal even greater disparities between predominantly black and predominantly white neighborhoods.

[14] For example, if minorities are subject to discrimination in education or labor markets, they will have lower incomes and their mortgage loan applications may reflect less creditworthiness, but denial of applications on the basis of such lower creditworthiness would not be considered discriminatory for the purposes of this study. Likewise, if minorities are steered away from predominantly white neighborhoods and toward older central city areas with high-density and multi-unit housing, denial of applications on the basis of the property would also not be considered discriminatory for the purposes of this study (Munnell, et al., 1996).

[15] John Yinger (1996) identifies five steps in the lending process: 1) advertising and outreach; 2) application procedures; 3) loan acceptance; 4) determination of loan terms; and 5) loan administration.

[16] There is, however, no federally mandated reporting of information on property insurance, and only eight states require any disclosure of such data, nor have nationwide studies been conducted; assessments, therefore, of the extent of insurance discrimination and redlining are limited (Squires, 2001).

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