SECTION FOUR:
THE PLACE-BASED DYNAMICS OF RACIAL DISPARITIES

Where poverty and race meet

The spatial dynamics of poverty summarized in Section Two and the spatial dynamics of race and ethnicity summarized in Section Three mirrored each other, contributing to an overlap between areas of concentrated poverty[i] and places where people of color are concentrated. These concurrent racial and economic trends dramatically changed the demographic makeup of areas of concentrated poverty in the region during the last two decades. Figure 4.1 shows a notable increase in the number and share of residents of color living in areas of concentrated poverty.

4.1 Race and ethnicity of residents living in areas of concentrated poverty in 1990, 2000 and 2007-2011

	1990		2000		2010	
	#	%	#	%	#	%
White, non-Latino	129,333	59.1%	83,346	37.8%	125,077	37.1%
Black, non-Latino	45,240	20.7%	59,762	27.1%	91,893	27.3%
Latino	9,476	4.3%	26,210	11.9%	53,686	15.9%
Asian, non-Latino	24,181	11.1%	34,566	15.7%	46,750	13.9%
Native American, non-Latino	9,934	4.5%	5,350	2.4%	5,842	1.7%
A race not listed above, or multiracial, non-Latino	575	0.3%	11,372	5.2%	13,600	4.0%
People of color	89,406	40.9%	137,260	62.2%	211,771	62.9%
Total population in areas of concentrated poverty	**218,739**	**-**	**220,606**	**-**	**336,848**	**-**

Source: U.S. Census Bureau, Decennial Census, 1990, 2000 and 2010; American Community Survey five-year data, 2007-2011.

While the number of white residents in concentrated areas of poverty did not change substantially between 1990 and 2007-2011, the share of white residents in these areas declined from 59.1% to 37.1% during these two decades. As the share of white residents declined in areas of concentrated poverty, people of color became the primary residents of these areas. The share of residents of color within areas of concentrated poverty increased from 40.9% in 1990 to 62.9% in 2010. While black and Asian residents had a consistent presence in areas of concentrated poverty, both the number and percentage of Latino residents in areas of concentrated poverty increased considerably.

The change in the demographic profile of areas of concentrated poverty was partially due to the changing demographic makeup of residents in poverty and partially because of race-based barriers that limit the ability of people of color to move away from areas of concentrated poverty. Figure 4.2 shows that residents in poverty in the region became more racially diverse since the 1990s. In 1990, white residents constituted 65% of the region's residents in poverty, compared to 52% in 2000 and 2007-2011.

[i] The term "areas of concentrated poverty" refers to census tracts where at least 40% of residents whose family income is below 185% of the federal poverty threshold.

4.2 Race and ethnicity of residents living in poverty in the Twin Cities region in 1990, 2000 and 2007-2011

	1990		2000		2007-2011	
	#	%	#	%	#	%
White, non-Latino	116,080	65%	93,365	52%	150,261	52%
Black	31,829	17%	38,605	22%	75,240	26%
Asian	20,474	11%	22,531	13%	30,562	11%
Native American	8,856	5%	4,548	3%	6,215	2%
A race not listed above, or multiracial	3,146	2%	20,267	11%	26,068	9%
Total	**182,680**	**100%**	**179,316**	**100%**	**288,346**	**100%**
Latino	4,986	3%	17,039	10%	36,473	13%

Source: U.S. Census Bureau, Decennial Census, 1990, 2000; American Community Survey five-year data, 2007-2011.

Notes: 1) Poverty in this figure refers to residents whose family income is below 100% of the federal poverty threshold; this differs from the definition used throughout the report, which is 185% of the federal poverty threshold and 2)The racial and ethnic categories used in analyzing the income breakdown of various racial and ethnic groups are also different from the categories used in the rest of the report due to unavailability of data. While the white category only includes non-Latino whites, the classification for people of color include Latinos as well as non-Latinos.

Before exploring the race-based barriers that limit the residential choices of people of color, it is important to understand the consequences of living in areas of concentrated poverty.

Harms of concentrated poverty

Areas of concentrated poverty have a number of traits that limit the life chances of those who reside in these areas. Compared to economically diverse areas, areas of concentrated poverty usually have higher crime as well as schools with lower test scores and lower graduation rates. Exposure to concentrated poverty compromises the physical and mental health of both poor people and their neighbors.[1] Living in concentrated poverty reduces the cognitive abilities of children across generations.[2] Children living in areas of concentrated poverty are more likely to have lower incomes as adults than their parents, a pattern that impedes the economic mobility of the residents of these areas across generations.[3]

Racial disparities in the region emerge partially because people of color are disproportionately more likely to live in areas of concentrated poverty, regardless of their socioeconomic status. As Figure 4.3 shows, in the Twin Cities region both low- and high-income households of color are far more likely to live in areas of concentrated poverty than their white counterparts.[ii] For example:

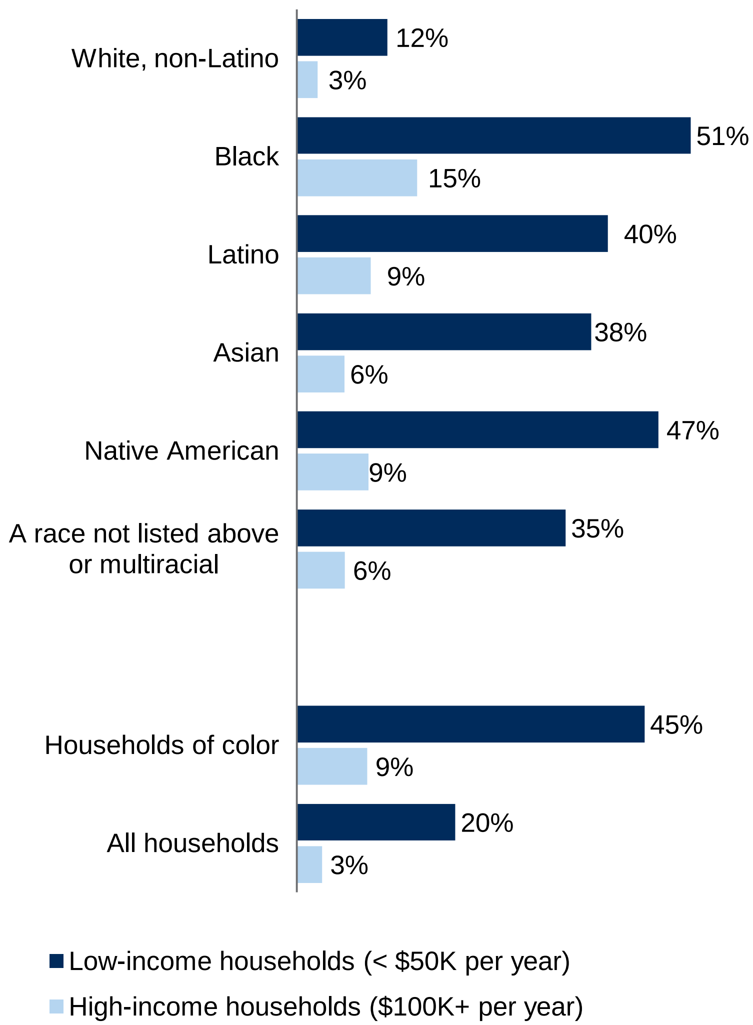
- 45% of low-income households of color reside in areas of concentrated poverty compared to 12% of low-income white households
- 9% of the high-income households of color reside in areas of concentrated poverty compared to 3% of white households of the same income level.

[ii] Low-income households are defined as households whose annual income is below $50,000. This roughly corresponds to 60% of the region's Area Median Income. The data required to cross-tabulate race by income is only available at the household level. As a result, the unit of analysis used in this section is low-income households rather than people in poverty.

The difference is especially stark for black low-income households, who are more than four times as likely to live in areas of concentrated poverty as their white counterparts. While more than half of low-income black households live in areas of concentrated poverty, an overwhelming majority of low-income white households (88%) live in economically diverse communities where they are not exposed to the lasting negative effects of concentrated poverty.

This pattern of disproportional exposure to concentrated poverty holds even for households with incomes over $100,000. Once again, black households are the most disadvantaged in terms of exposure to concentrated poverty. Compared to 3% of high-income white households who live in areas of concentrated poverty, 15% of black households making over $100,000 live in these areas. Similar disparities in exposure to concentrated poverty exist for high-income Latino (9%), Asian (6%) and Native American (9%) households.

4.3 Households living in areas of concentrated poverty by race and income, 2007-2011



Source: U.S. Census Bureau, American Community Survey five-year data, 2007-2011.

Note: The racial and ethnic categories used in analyzing the income breakdown of various racial and ethnic groups are different from the categories used in the rest of the report due to unavailability of data. While the white category only includes non-Latino whites, the classification for people of color include Latinos as well as non-Latinos.

People of color are disproportionately exposed to concentrated poverty for two different reasons. First, people of color tend to be disproportionately poor as a result of the historical legacy of institutional racism. For example, employment discrimination and disproportionate incarceration of people of color—among other factors—undermine the ability of people of color to be gainfully employed.[4]

The second reason people of color are disproportionately exposed to areas of concentrated poverty is the presence of race-specific barriers that limit their housing choices. These barriers limit the residential choices of people of color, limiting their ability to leave areas of concentrated poverty and move to more economically diverse areas.

Both of these factors disadvantage people of color. While acknowledging the importance of the first factor, this report primarily focuses on the second one because fair housing is the main component of this analysis. The rest of Section Four involves an in-depth analysis of race-specific barriers to housing choice to demonstrate the degree to which these barriers contribute to place-based racial disparities.

Barriers to housing choice

Socioeconomic barriers

In most metropolitan areas, including the Twin Cities region, there are systemic differences in the socioeconomic status of different races.[iii] Since race and income are still strongly correlated, residential options of people of color are much more limited than those of their white counterparts.

It is possible to establish the degree to which race may limit the residential choices of people of color above and beyond their socioeconomic status. One can predict the number of people of color that would be expected to reside in an area based on the income distribution of people of color across the region.[iv] The total number of persons of color that are predicted to reside in an area based on their income distribution could then be compared to the actual number of persons of color who reside in the same area. The ratio of the actual to predicted numbers can, in turn, help identify the areas in a region where people of color are under- or over-represented above and beyond what their socioeconomic status would allow.

Areas where people of color are over-represented—where the ratio of actual to predicted number of people of color exceeds 1.1—are places where residents of color are living near other residents of color at numbers higher than their income alone would suggest. In contrast, areas with values less than 0.9 have fewer people of color than one might expect given their income levels. These areas, which are characterized by over-representation of white residents, are communities where people of color are absent even though they have the financial means to move into these communities if they chose to do so.

In 160 of the region's 186 cities and townships, the observed numbers of residents of color are less than 90% of the numbers that income levels predict, indicating that white residents are more likely to live closer to other whites than income alone would suggest. The actual percentage of people of color roughly approximates the predicted percentage in only 12 communities, which have actual to predicted ratios ranging from 0.9 to 1.1. In 14 other communities, the actual to predicted ratio exceeds 1.1. Most of these communities, including Brooklyn Center, Brooklyn Park, Minneapolis, Richfield and Saint Paul,

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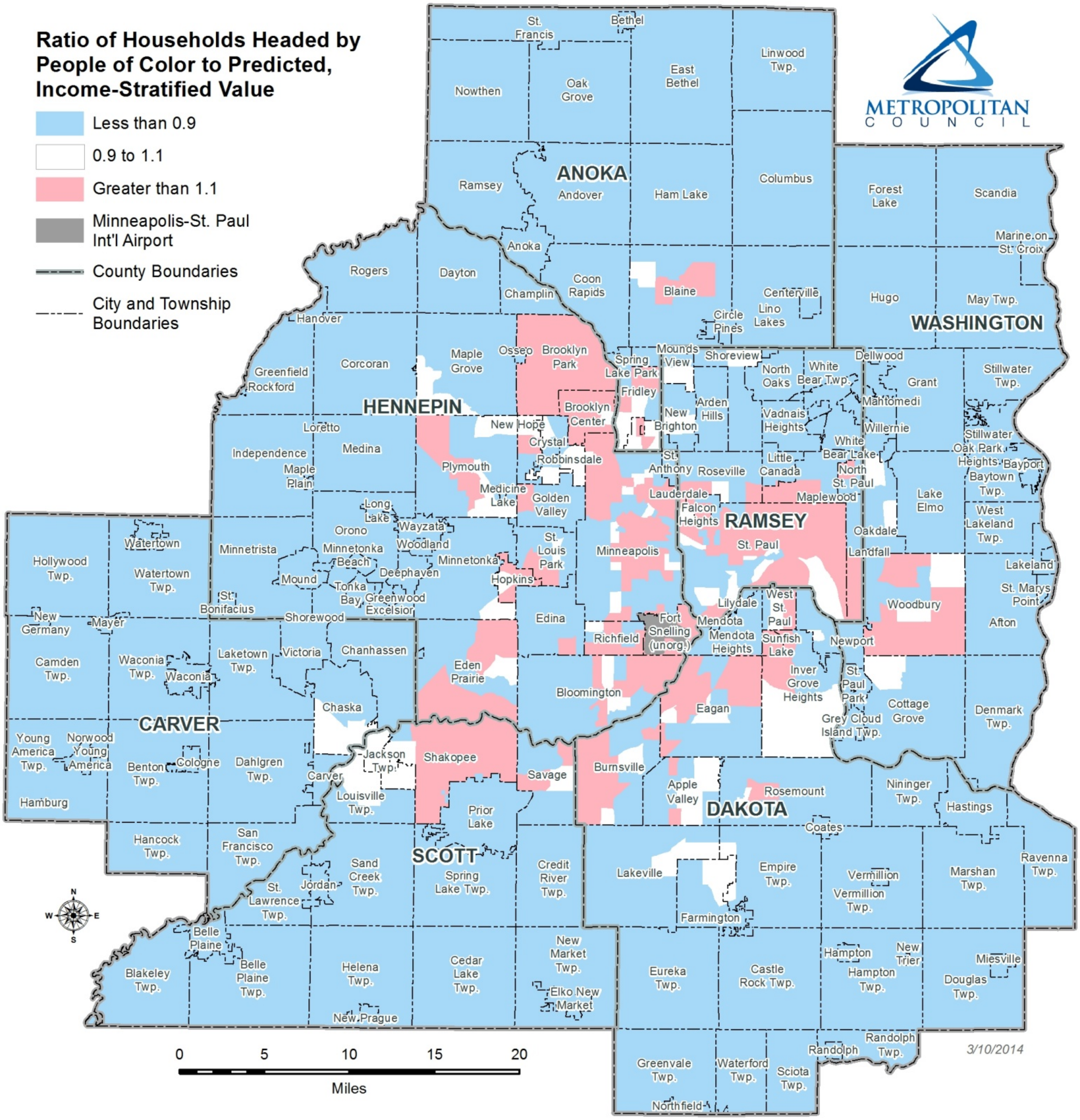
[iii] American Community Survey data from 2007-2011 reports that the median household income for white, non-Latino residents in the Minneapolis-Saint Paul metropolitan area was $71,150; significantly higher than households of other racial and ethnic groups—black ($29,417), Latino ($42,203), Asian ($63,971) and Native American ($37,922).
[iv] See Appendix D for the technical details of this calculation.

are in or closer to the region's core while a few, such as Eden Prairie and Shakopee, are in suburbs located in the southwestern part of the region.[v]

Map 4.A confirms that people of color are disproportionately concentrated despite the fact that they have the financial means to distribute more broadly. Census tracts with especially high ratios (indicating higher concentrations of people of color than income alone accounts for) are seen throughout Minneapolis and Saint Paul as well as suburban areas such as Apple Valley, Brooklyn Center, Brooklyn Park, Bloomington, Burnsville, Eagan, Hopkins, Maplewood, Richfield, Shakopee and Woodbury. In contrast, census tracts in parts of Minneapolis, Edina, Golden Valley and parts of Saint Paul have predicted to actual ratios that fall below the 0.9 threshold that indicates an over-representation of white residents.

[v] See Appendix D for a list of the actual to predicted ratios for each city and township in the region.

Map 4.A Ratio of actual to predicted households of color by census tract, 2007-2011



Source: U.S. Census Bureau, American Community Survey 5-Year data, 2007-2011.

These findings suggest that socioeconomic barriers to housing choice account for only part of the residential segregation observed in the Twin Cities region. In fact, a recent study finds that 54% of existing residential segregation by race and income in the region was due to variations in income while 40% was due to racial segregation during the 2007-2011 period.[5] In contrast, the corresponding shares for socioeconomic status and race were 66% and 32% in 1990. This means that the relative importance of racial barriers vis-à-vis socioeconomic barriers in the Twin Cities region has increased since 1990. In contrast, the importance of racial barriers compared to socioeconomic barriers declined across the largest 50 metropolitan areas during the same period.[6]

Barriers resulting from race-based residential preferences

Research shows that people of color and white residents have different preferences regarding the racial composition of their preferred neighborhoods. While both people of color and white people state a preference for living in racially diverse communities in surveys, the definition of diversity varies by race. The ideal racially diverse neighborhood for people of color has a smaller percentage of whites than the racially diverse neighborhoods preferred by whites.[7] Once the share of residents of color in a neighborhood reaches the range of 5% to 20%, white residents begin leaving the neighborhood, 'tipping' the neighborhood from a racially mixed one to a racially segregated one.[8] In contrast, people of color tend to prefer neighborhoods where their own racial or ethnic group is present but not the dominant group. The incompatibility of the residential preferences of whites and people of color makes it hard for racially-mixed neighborhoods to remain stably racially diverse.

Some racial and ethnic segregation may result from the preferences of people of color to live with other residents of color. For instance, immigrant populations often live with co-ethnics because immigrant enclaves provide social networks, including support for those not yet fluent in English.

However, when people of color choose to live in communities of color as opposed to a racially mixed neighborhood or an area that is predominantly white, they pay a cost for their choice. To the extent that racially discriminatory practices such as steering and discriminatory lending trigger private disinvestment in communities of color, persons of color bear the costs of this disinvestment. For instance, housing values are lower in communities of color that have experienced disinvestment—a factor that perpetuates and amplifies existing wealth disparities between whites and people of color.[9] There is evidence that even middle-class communities of color are not immune from these costs. For example, even some of the robust middle-class communities in Prince George's County, Maryland, suffer from higher crime rates, lower school funding, and greater poverty levels.[10]

Barriers resulting from federal housing policies influencing rental markets: Key highlights in federal housing policy

Federal housing policy has long played a role in shaping the residential choices of low-income residents by creating opportunities for affordable housing in selected locations. Because people of color have historically been over-represented among low-income households, the distribution of affordable housing options disproportionately defines the housing choices available to households of color. This section will provide an overview of the key federal laws affecting housing policy, and the following section will describe their influence on rental markets in the Twin Cities region.

Public Housing

The Housing Acts of 1937, 1949, and 1954 ushered in the era of large-scale public housing construction funded by the federal government and owned and operated by local housing authorities. These Acts, which also authorized and funded urban renewal/'slum clearance' programs across the nation, were enacted to move the residents of these ‘slums’ to what was envisioned to be higher-quality public housing. The slum clearance programs, however, often designated communities of color ‘slums’ and displaced them from their neighborhoods in great numbers.[11] And although public housing projects varied more in terms of housing typology, scale, and demographic and geographic distribution than is commonly recognized, federal housing programs primarily provided for large-scale, high-density public housing projects placed in locations with high-concentrations of people of color and low-income residents.[12]

By the late 1960s, the lack of oversight by the U.S. Department of Housing and Urban Development (HUD), which led to the relegation of public housing to segregated, high-poverty areas, was challenged in federal courts.[13] The Fair Housing Act of 1968 required HUD to “affirmatively further fair housing” by ensuring that new public housing developments did not foster patterns of racial segregation.[14] The Act, however, made broad exceptions to this requirement, and for the most part, large-scale, “superblock” public housing projects, particularly those in central cities, remained racially and economically segregated.[15]

Housing and Community Development Act of 1974

The Housing and Community Development Act of 1974 ushered in a new era of housing policy. In this era, the federal government shifted its housing policy to prioritize demand-side housing programs while also introducing new, more market-oriented supply-side housing assistance. This critical legislation partly maintained the historical federal supply-side orientation through the authorization of the Section 8 New Construction/Substantial Rehabilitation Program. Under this HUD-designed program, state housing agencies provided financing to private property-owners for rehabilitation or new construction of affordable units, which was then combined with a dedicated revenue stream from HUD in the form of rental subsidies for income-eligible tenants paid directly to property owners.

The 1974 Act introduced the Community Development Block Grant (CDBG) program, which reflected the federal government’s move from categorically-specific federal funding allocations to formula-based consolidated block grants. Local authorities can use these block grants for a variety of activities including real property acquisition; water and sewer systems; public facilities and services; planning and capacity building; code enforcement; economic development assistance, and more. Jurisdictions eligible to receive CDBG funds may use these funds for three broad purposes:

- to largely benefit low- and/or moderate-income persons;
- to eliminate slums or blight; and/or
- to meet an urgent community need.

While the 1974 Act did not explicitly authorize recipients to use their CDBG funds for the construction of new affordable housing (with certain limited exceptions), they can spend their allocations on three types of housing assistance:

- down-payment assistance for homebuyers;
- acquisition of existing affordable housing units for rehabilitation or affordability preservation; and
- maintenance of existing housing affordable to low- and moderate-income homeowners.[vi]

[vi] Importantly, however, in addition to direct assistance as mentioned above, CDBG funding can be used for other types of housing-related activities, such as: covering the costs of connecting existing residential structures to water or local sewer lines; removing material and architectural barriers that restrict mobility and accessibility or elderly or disabled persons; installing or replacing landscaping, sidewalks, and driveways; conversion of a closed building to a residential use; historic preservation;

Along with these supply-side programs, the 1974 Act signaled a significant shift toward demand-side programs that could leverage the private market for expanding the residential choices of low-income residents. What is now known as the Housing Choice Voucher Program—also known as the Section 8 Voucher Program—came to symbolize this transition, providing rental subsidies to low-income households, allowing them to find housing within the private rental market in communities of their choice.[vii] This growing reliance on private markets in assisting those in need of affordable housing provided much needed political cover for federal housing assistance, as federal supports for affordable housing became both literally and figuratively less visible. As the federal government gradually shrank its investments in bricks and mortar of public housing, the Section 8 program became the backbone of publicly-subsidized housing and largely remains so today.

Low-Income Housing Tax Credits

The Tax Reform Act of 1986 initiated the federal Low-Income Housing Tax Credit (LIHTC) program, which indirectly subsidizes the construction of rental housing projects for low-income households. With the LIHTC program, the federal government moved from directly to indirectly financing privately-owned development of affordable rental housing for low-income households. Under the LIHTC program—overseen by the Internal Revenue Service—the federal government provides a dollar for dollar credit against tax liability for affordable housing development for 10 years. Through the syndication process, these tax credits are sold to corporate or individual investors in exchange for upfront equity for construction costs.[16] Allocators of tax credits—state housing finance agencies and certain local governments—prepare a Qualified Allocation Plan that defines their priorities for which affordable housing projects should receive credits. In order to qualify for these tax credits, projects need to ensure affordable rents for a fixed period of time—either 15 or 30 years.

Tax credit “syndicators” representing private investors in tax credits also influence the distribution of tax credits through their assessment of risk and potential yield (compared to a bevy of potential alternative investments), and related tax credit ‘pricing’ that lends itself to robust markets with high demand and lower perceived risk. Recent evidence has also shown that while return on investment or yield is the primary motivation of tax credit investment, private banks have emerged as a large tax credit player., These investments help banks meet their compliance responsibilities under the Community Reinvestment Act (CRA). This law aims to compel banks to offer financial services in underserved and often urban markets. The LIHTC program, which funded the construction of about 2.4 million units since 1986, is currently the nation’s main funding source for new construction and rehabilitation of affordable housing.

HOME Investment Partnerships (HOME) Program

Authorized in 1990, the HOME Investment Partnerships (HOME) Program, like the CDBG Program, reflects the federal shift toward market-oriented, flexible block grants that can be tailored to the unique needs and market conditions of each jurisdiction. HOME is a formula-based grant program offered to states, municipalities, and organized HOME consortia that are made up of contiguous units of local governments that have a binding agreement. As the largest federal block grant dedicated exclusively to affordable housing, the program provides four types of housing assistance: tenant-based rental

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lead-based paint hazard evaluation and reduction; to further fair housing; or to make improvements to a residence in order to conduct a business out of the home.

[vii] Voucher assistance under the Section 8 program could be either project- or tenant-based. Project-based subsidies apply to specific properties while tenant-based subsidies provide tenants with vouchers they can use anywhere vouchers are accepted.

assistance (similar to Section 8 vouchers); assistance to homebuyers; housing rehabilitation; and new construction.

Housing Opportunities for People Everywhere (HOPE VI)

The most significant housing program of the 1990s was the Housing Opportunities for People Everywhere (HOPE VI) Program. This program was the federal government's response to declining support for public housing projects. As the physical condition of public housing suffered due to funding cuts, criticisms against public housing projects for promoting racially isolated, high-poverty neighborhoods mounted. HOPE VI Program focused on deconcentrating poverty by decommissioning public housing and replacing it with more human-scaled, mixed-income, and geographically distributed subsidized housing.[17] Unfortunately, HOPE VI produced fewer units than the decommissioned public housing that it was intended to replace, leading to mixed results. While the program replaced inferior units by better quality homes and reduced the concentration of public housing units to some extent, it also resulted in an overall net loss of affordable housing stock.

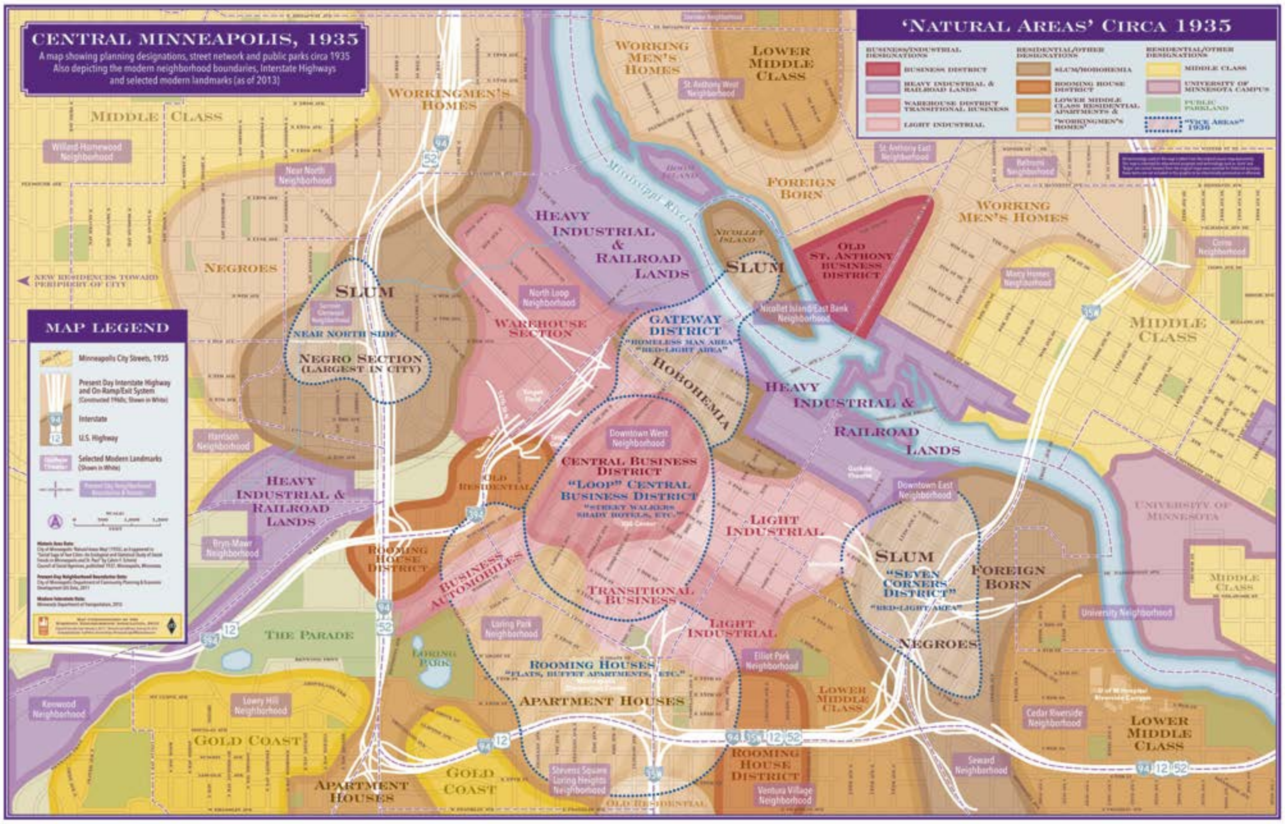
Ramifications of federal housing policy on rental markets in the Twin Cities region

Public Housing

Many communities of color in the Twin Cities region were disrupted as a result of 'slum clearance'. For instance, Map 4.B shows the communities that the city of Minneapolis designated as slums in 1935. The very same neighborhoods that were considered slums later hosted the sites where new public housing projects were built. For instance, the first public housing project of the Twin Cities region—the Sumner Field Project—was built in 1938 in the Near North neighborhood of Minneapolis, straddling the line between what was then a white community and the city's largest 'negro slum'. (Nonetheless, the original residents of Sumner-Field were predominantly Jewish.)

Over time, many of the public housing projects in Minneapolis became located in the increasingly all-black neighborhoods around Near North, directly adjacent to the original Sumner Field project.[18] These siting decisions, which reinforced racially segregated settlement patterns, limited the housing choices of low-income residents considerably. This pattern of concentrated public housing and other HUD-subsidized housing continued for more than two decades until a desegregation lawsuit was filed in 1992.[19]

Map 4.B “Central Minneapolis - Natural areas, 1935”



Source: “Central Minneapolis, Natural Areas, 1935.” Map Commissioned by the Harrison Neighborhood Association, 2012. Cartography, G. Maas. Based on Calvin Schmid’s original map, ‘Social Saga of Two Cities’, 1937.

The Hollman vs. HUD Secretary Cisneros lawsuit, filed by Legal Aid and the NAACP on behalf of public housing and Section 8 renters, alleged historical patterns of race- and income-based segregation in the placement of public housing in the Near North neighborhood of Minneapolis. The lawsuit was filed against the Minneapolis Public Housing Authority, the City of Minneapolis, the Minneapolis Community Development Agency, HUD, and later the Metropolitan Council. The lawsuit stemmed from decisions in the 1950s by the City to locate hundreds of new low-income family housing units in Minneapolis’ Near North neighborhood, rather than scattered throughout the City. By 1992, the units were in increasingly distressed condition and the area had a high concentration of low-income families of color. The lawsuit sought more locational choice and improved housing conditions for families in public housing and Section 8 programs.

The 1995 settlement reached with HUD was formalized in federal court as the Hollman Consent Decree and required:

- demolition of nearly 800 public housing units primarily in the Sumner-Olson and Glenwood-Lyndale housing developments;
- relocation of the displaced residents;
- development of one-for-one replacement units for families, including some units in the Near North neighborhood;
- units in other areas of Minneapolis and nearly 500 units in suburban communities;
- 900 new Section 8 vouchers for families living in areas of concentrated poverty;

- creation of a centralized housing information system;
- recruitment efforts of more landlords to participate in the Section 8 program; and
- housing mobility counseling to families.

More than 20 years after the lawsuit was first filed, Heritage Park redevelopment and the extension of Van White Boulevard to Dunwoody stand as evidence of the completion of some of the Consent Decree requirements. Additionally, the Metropolitan Council, along with other housing authorities serving suburban communities, have developed some of the replacement units, and HousingLink exists as a reliable source of regional affordable housing information for housing seekers and policy makers.

Section 8 New Construction

From the 1970s into the mid-1980s, the Metropolitan Council and the Minnesota Housing Finance Agency (MHFA) had a successful partnership that promoted affordable housing construction in suburban locations. MHFA was financing the new affordable housing construction and ensuring long-term affordability through Section 8 rental subsidies, authorized under the Housing and Community Development Act of 1974. The Council explicitly encouraged these units to be built in prosperous suburban locations. Although production under the program ceased by the early 1980s, project-based Section 8 housing is still prevalent across the Twin Cities region.

While it is difficult to document today which affordable housing buildings benefited from this arrangement, the central cities of Minneapolis and Saint Paul are today home to only 29% of the region's total of project-based Section 8 housing units. In fact, the Twin Cities region is notable in the nation in terms of the degree to which project-based Section 8 properties are dispersed across the region. There is growing concern that the possibility of owner "opt outs" when rent-limit contracts expire poses a serious threat to this segment of the affordable housing stock—particularly with limited preservation resources available. On average, existing contracts on these properties are 76 months from expiration.

Community Development Block Grants

In the Twin Cities region, most recipients use a significant portion of their Community Development Block Grant (CDBG) allocations to provide low-interest loans or grants to low- and moderate-income homeowners for health-, safety- and resource-conservation-related home repairs. For example, for the federal program year of 2011-2012, metro entitlement recipients used nearly a quarter of their allocations for single-family-homeowner rehabilitation activities.

Low-Income Housing Tax Credit (LIHTC) Program

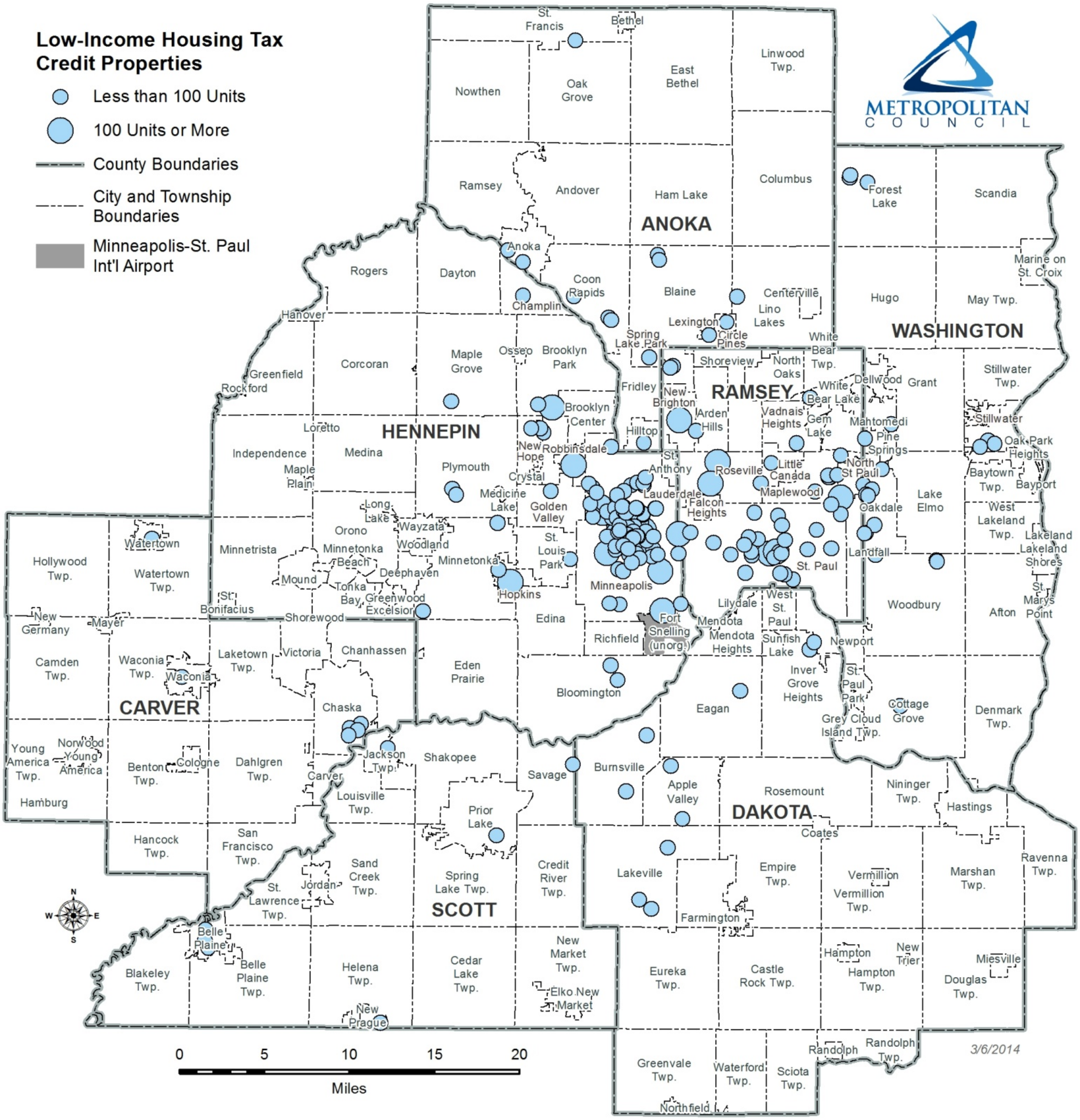
Low Income Housing Tax Credits in the Twin Cities region are allocated by five organizations. The Minnesota Housing Finance Agency is the main allocator that serves the entire state. In addition to the state allocator, four sub-allocators—the city of Minneapolis, the city of Saint Paul, Dakota County, and Washington County—are authorized in state statute to distribute tax credits in their own jurisdictions. For the 2013 allocation of tax credits, the four suballocators distributed 58% of the metro area's tax credits.

Federal and state statutes require these organizations to prepare a Qualified Allocation Plan (QAP). In the QAP, allocating agencies convey their funding priorities, the broad parameters for how credits will be geographically distributed, their methods for scoring and selecting proposals, and rules pertaining to tax credit eligibility and compliance. By law, sub-allocators cannot issue their QAPs prior to the state allocator's QAP.

The allocation process involves two rounds. In round one, the state allocator cannot fund projects located in other sub-allocating jurisdictions with the exception of awards under the federally mandated ‘nonprofit’ set-aside of 10%. In round two, any unallocated funding from the sub-allocating jurisdictions is combined in a state pool. The Minnesota Housing Finance Agency awards the remainder of the credits in this pool to qualifying projects throughout the state, at times awarding extra tax credits to previously selected projects in order to cover existing funding gaps.

Map 4.C shows the distribution of properties financed with LIHTC¸ both new construction and rehabilitation, in the Twin Cities region as of 2012. Many suburban locations have LIHTC properties that provide affordable homes to low-income households. These units, however, are at risk of being converted into market-rate housing at the end of their compliance period of 15 or 30 years, especially when they are located in strong rental markets. As the next section outlines, there are not enough resources for affordable housing to ensure that all of the existing properties remain affordable. It is therefore especially important to preserve and further invest in new LIHTC units in these areas to mitigate the barriers low-income residents face in realizing their residential choices. However, building LIHTC-funded housing developments in suburban areas with strong housing markets has been difficult for a number of reasons. See “Barriers to development of affordable housing,” below.

Map 4.C Low Income Housing Tax Credit (LIHTC) properties, 2012



Source: Housing Link, 2012

HOME Investment Partnerships (HOME) Program

The HOME program has five participating jurisdictions in the Twin Cities region, including the Dakota County Consortium, Hennepin County Consortium, the entitlement cities of Minneapolis and Saint Paul, and the Minnesota Housing Finance Agency (MHFA).[viii] Participating jurisdictions vary in where they dedicate their resources. For instance, the City of Minneapolis and MHFA have so far dedicated 86% and 66% of their HOME allocations to rental activities, respectively. In contrast, the Dakota and Hennepin County consortia have respectively used 53% and 58% of their cumulative resources on homebuyer activities. In comparison, Saint Paul's greatest HOME target has historically been in homeowner rehabilitation (46%).

Housing Opportunities for People Everywhere (HOPE VI)

In the Twin Cities region, HUD provided funding through HOPE VI for only one project—Heritage Park in Near North Minneapolis.

Barriers to development of affordable housing

Since the end of the Section 8 New Construction/Substantial Rehabilitation Program in the mid-1980s, funding sources for affordable housing construction have become significantly more limited. Moreover, because funding for new affordable housing construction is competing for limited resources with projects preserving existing affordable housing—which is more likely to be in the older parts of the region—it is even more difficult to finance new affordable housing to serve emerging suburban locations. The Dakota County Community Development Agency (CDA) is an example of a local solution to the need for new affordable housing in suburban locations. Since 1988, the CDA has constructed 24 affordable housing developments for seniors and 18 workforce housing developments across Dakota County.

The cost of land adds significantly to the financial challenge of building new affordable housing. While land further out from the urban core is likely to be less expensive, these locations are also least likely to allow the kind of densities that make the economics of building new affordable housing attainable. Conversely, urban projects may allow more density but tend to have higher land costs per square foot.

To allocate scarce resources to fund affordable housing, the entities that fund affordable housing development set priorities. In recent years, Minnesota Housing has placed a priority on projects that:

- create housing opportunities for people experiencing long-term homelessness;
- preserve existing federally-assisted affordable housing;
- are located close to transit;
- are in proximity to job growth; and
- promote economic integration by creating affordable housing opportunities in higher income areas.

These funding priorities make affordable housing more likely to be built in some locations than others.

[viii] Since the program's inception, the Dakota and Hennepin County consortia and the cities of Minneapolis and Saint Paul have received a combined total of more than $203 million in federal appropriations. During the same period, the Minnesota Housing Finance Agency has received more than $185.5 million for HOME activities across the state, including the 7-county metro.

Neighborhood opposition—also known as “Not in My Back Yard” (NIMBY)—can delay or derail affordable housing development projects. Neighbors in both urban and suburban locations complain about the impact of affordable housing on crime, parking, traffic and children in the neighborhood out of an underlying anxiety about the impact of affordable housing on their property values.[20] In lower-income neighborhoods, opposition to new affordable housing argues about the detrimental affects of adding to a concentration of poverty. In recent years, NIMBY concerns have delayed a number of affordable housing projects:

- Fort Road Flats, developed by Project for Pride in Living in Saint Paul’s Highland Park neighborhood;
- Forest Ridge Townhomes, developed by Duffy Development in Forest Lake;
- Lake Shore Townhomes, developed by CommonBond in Maple Grove; [21] and
- Creekside Commons, developed by the Plymouth Church Neighborhood Foundation (now Beacon Interfaith Housing Collaborative) in south Minneapolis.[22]

While these projects ultimately overcame NIMBY opposition, the delays added three years or more to the development timeline, increasing the holding costs for the developer in addition to any legal costs. In other cases, neighborhood opposition killed projects or led sponsors to look for alternative locations. For example, in 2008, RS Eden was exploring a redevelopment of the former Sholom Home in Saint Paul’s Como Park until political opposition led them to look elsewhere.[23] Similarly, the city of Saint Paul has now asked Catholic Charities to search for a site for a rebuilt Dorothy Day Center in downtown Saint Paul rather than in the Railroad Island area between downtown and the East Side out of concerns about the impact of poverty on the East Side. Facing potential costs from delays, developers often take the pulse of the communities before they move ahead with a project. If they don’t find the elected officials and city staff supportive, they usually walk away and look for locations in communities with more supportive political climates.

Currently, tenant-based rental assistance, public housing units, publicly-subsidized affordable housing, and naturally-occurring affordable housing comprise the largest pieces of the housing infrastructure serving low-income people across the nation. Many components of this infrastructure set distinct barriers that prevent low-income people from fully realizing their residential choices. The following sections will cover these barriers in greater detail.

Barriers faced by Section 8 voucher holders

Section 8 vouchers are an important tool for expanding residential choice among low-income people. For many voucherholders, a Section 8 voucher is the single most important factor in achieving housing stability.[ix] Unfortunately, one of the main barriers to housing choice for low-income people is the dwindling federal dollars that fund the Section 8 program. The program allows participants to use voucher payments to cover rental costs that exceed 30% of their monthly income. The demand for the Section 8 vouchers greatly outpaces the supply, both nationally and within the Twin Cities region. For instance, the Metropolitan Council’s Housing and Redevelopment Authority, which administers an average of 6,600 vouchers per month in 100 cities in Anoka, Carver, and suburban Hennepin and Ramsey counties, had a waiting list of 1,215 families in 2013 and has reduced the number of families served by 400 over the past year due to a $2.5 million cut in federal funding.[24] In Minneapolis and Saint

[ix] In September and October of 2013, the Metropolitan Council conducted six roundtable discussions with Section 8 voucher holders across the region. Over 130 participants attended. Many of the participants expressed gratitude for receiving vouchers, stating how difficult their lives would have been without the vouchers. Most voucher holders called for more resources to be devoted to this valuable program.

Paul, waiting lists are even longer and obtaining rent assistance is even more challenging for low-income families who rely on these vouchers.[25]

Even for those who are lucky enough to obtain a voucher, barriers such as the reluctance of landlords to rent to Section 8 voucher holders continue to limit housing choices. This is the case despite the fact that Minnesota is one of only 13 states in the nation to prohibit discrimination on the basis of receiving public assistance. State law requires housing providers to consider the subsidy provided through the voucher program as equivalent to other sources of income, such as earned income from employment or social security benefits.[26] However, a 2010 ruling by the Minnesota Court of Appeals established that a property owner's participation in the Section 8 program is voluntary.[27] The ruling stated that those who choose not to participate or discontinue their participation may do so without violating the Minnesota Human Rights Act.

One final barrier faced by Section 8 voucher holders, despite the program's emphasis on geographic mobility and tapping the large unsubsidized stock of private market housing, is that actual rents charged by landlords may preclude participation in the Section 8 program if they are higher than the "Voucher Payment Standards" set by the housing authority issuing the voucher. Under program rules, Section 8 administrators can elect to set their payment standard anywhere from 90% to 110% of HUD-published "Fair Market Rents." When market rent exceeds the housing authority's established payment standard, the household is prevented from exercising true housing choice, even if prospective communities are welcoming and existing landlords are willing to participate in the program.

Voucher holders participating in the focus groups brought up a number of barriers that prevented them from living in the locations they would like to live. Many complained that their choices were limited:

> *"It does not feel like choice. You are poor so you take it."*
>
> *"I went with whoever accepted the Section 8 (voucher)."*
>
> *"We want to move somewhere else but the rent is too much or they don't take it (Section 8 voucher)."*
>
> *"Even though we moved to a suburban area with good schools, we still have housing problems. It is hard to find a Section 8 house."*

Voucher holders mentioned that their residential choices are constrained by the reluctance of landlords to accept Section 8 vouchers:

> *"I have been on Section 8 since 2012. My landlord does not want to do it anymore so I have to move. It seems like there is less choice in Anoka area for voucher holders. The housing options are much narrower."*
>
> *"A lot of places don't take Section 8. One landlord I called actually criticized me for asking about Section 8."*
>
> *"A lot of property owners don't know about the program. If they do, and they have one bad experience, they don't want to do it again."*

Voucher holders attributed this reluctance to the stigma of associated with public assistance:

> *"It all boils down to that I didn't and don't have a choice—being black, getting rental assistance. They should allow families to have more choice. There is a stigma with homeowners. Some of them don't even know about Section 8 or how to accept it and some don't want to."*

> *"People know that when you have Section 8, they don't treat you the same. There is less maintenance."*

Other voucher holders mentioned the difficulty of finding voucher-accepting units in specific areas and expressed a feeling of being 'grouped' in certain neighborhoods:

> *"Where is Section 8? It's classism. Only certain areas accept Section 8. In Saint Paul, only the East Side takes them. I lived there for five years. In Minneapolis, it's the North Side."*

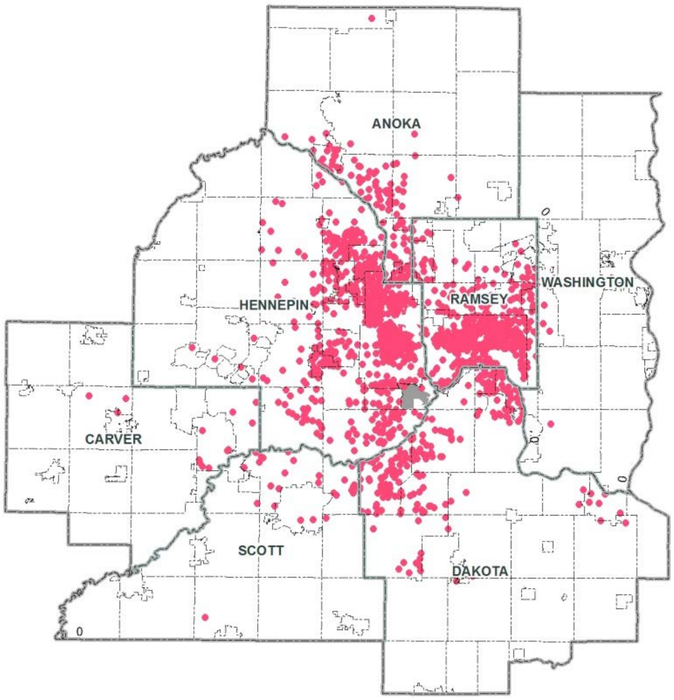
> *"They want to cap certain areas to keep you there and not spill over to other areas."*

> *"I just feel the choice is made for us, being program recipients. It alienates us so bad. We are pushed into certain areas, and that's where we have to be. I don't know what the answer is but I wish we could find one."*

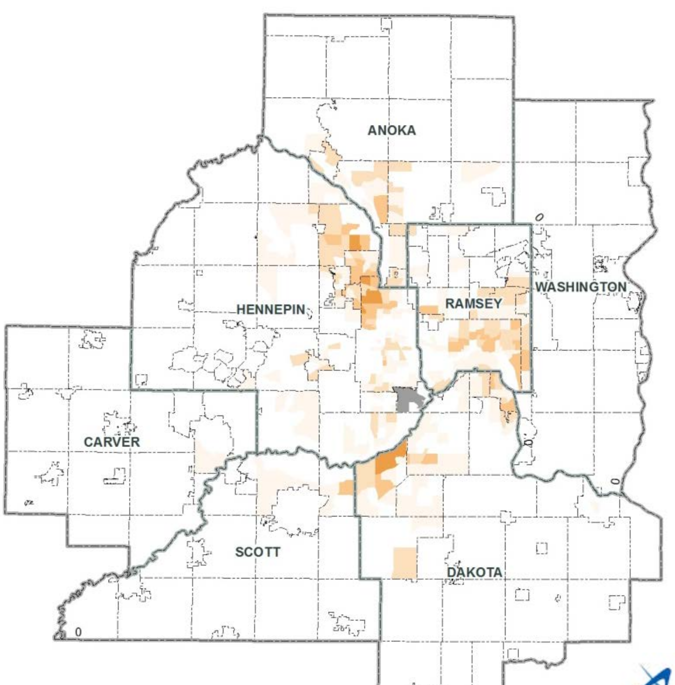
The top panel of Map 4.D confirms that in terms of absolute numbers the 2012 voucher holders in the region are indeed concentrated in Hennepin and Ramsey counties, and even more so in Minneapolis and Saint Paul. In fact, Hennepin County had 47% of the region's vouchers in 2012, while Ramsey County had 28% of the same total. The City of Minneapolis alone housed a quarter of the region's voucher holders, while Saint Paul was home to 22% of the region's voucher holders in 2012.

The bottom panel of Map 4.D, which shows the percentage of available rental units that are used by Section 8 vouchers, reveals a slightly different spatial pattern. Areas with high concentrations of voucher use in Hennepin County include neighborhoods in North Minneapolis and the northern suburbs of Hennepin County. In Ramsey County, concentrated areas include various communities in Saint Paul in addition to neighborhoods in suburbs to the north and east of Saint Paul. Similarly, parts of west Dakota County also show higher concentrations of voucher use. The specific urban locations with high concentrations of voucher use aligns with the Section 8 voucher holders' sense of being 'grouped' in certain neighborhoods.

Map 4.D Distribution of Section 8 Voucher Holders, 2012



=10 Section 8 voucher holders



Section 8 voucher holders as a percentage of rental units per census tract

- County Boundaries
- City and Township Boundaries
- Minneapolis-St. Paul Int'l Airport
- Less than 5%
- 5% to 9.9%
- 10% to14.9%
- 15% to 19.9%
- 20% or more

Source: HousingLink, 2012, and U.S. Census Bureau, Decennial Census, 2010.

Barriers resulting from discrimination in private housing markets

Barriers to the residential choices of people of color resulted from historical practices that have long shaped the landscape of housing markets. These barriers were neither accidental nor the natural outcome of real estate markets. In fact, discriminatory policies and practices of public and private actors shaped the dynamics of real estate markets and maintained a residential color line.[28]

People of color were not legally allowed to live in white neighborhoods up until 1917, when the era of government-sanctioned residential segregation finally ended.[29] In the absence of laws that openly reinforced segregation, a more private, contractually-enforced means of residential segregation emerged. Racially restrictive covenants in deeds that prohibited white homeowners from selling their properties to potential purchasers of color became the primary means of maintaining the residential color line.[30] In 1948, the U.S. Supreme Court declared racially restrictive covenants illegal, eliminating yet another legally enforced form of segregation.[31] However, these covenants in Minnesota remained in effect until 1954, when Governor C. Elmer Anderson signed a bill that specifically banned them.

As legal rules that explicitly reinforced racial segregation dwindled, private discriminatory practices that played a role in maintaining the residential color line became more prevalent. Thousands of 'sundown towns', including the Twin Cities suburb of Edina, excluded African Americans from living in their neighborhoods through legal formalities, race riots, and intimidation by police.[32] Violence and intimidation of people of color to prevent them from moving into white neighborhoods became common place in many metros including Twin Cities.[33] For instance, in 1931, a crowd of 3,000 in South Minneapolis surrounded the house of Mr. Jones, a civil servant and a veteran of the First World War, threatening to burn his house and hang him in order to make him move out of the neighborhood.[34]

Blockbusting was yet another real estate practice that fueled racial segregation.[35] Real estate agents used a range of fraudulent tactics to convince white homeowners that people of color were moving into their neighborhoods. By using these tactics, they managed to scare off white homeowners and encouraged them to quickly sell their properties at reduced prices.[36] Then they aggressively marketed these properties to middle-class people of color, often at inflated prices. In Chicago, for instance, there were more than 100 real estate companies that managed to 'bust' two to three blocks a week for 15 years by 1962.[37] The Fair Housing Act of 1968 created causes of action against blockbusting, reducing the profitability of blockbusting through regulations and statutes. Despite these rules, blockbusting continued to exist well into the 1980s.[38]

Another practice that limited the housing opportunities of people of color was redlining. Redlining practices by financial institutions involved the outright denial or rationing of mortgage products to applicants and communities of color. The federal government played a key role in institutionalizing redlining practices by enabling discrimination in property appraisal and mortgage lending. For example, the Housing Act of 1934, which created the Federal Housing Administration (FHA), enabled many white Americans to access longer-term mortgages on more favorable lending terms and signaled the formalization—by law—of race-based discrimination in housing.

In 1935, the federal government asked Home Owners' Loan Corporation—a federally sponsored corporation—to create 'residential security maps,' to assess the loan worthiness of neighborhoods based on the risk factors associated with these communities. These assessments were based on the racial makeup of communities, regardless of the ability of applicants to satisfy lending criteria. These racially biased criteria designated many communities of color high-risk neighborhoods, deeming them ineligible for mortgage lending.

The racial dynamics of real estate markets have changed significantly since the passage of the Fair Housing Act of 1968. Socially acceptable expressions of racial prejudice and overt discriminatory actions that perpetuate racial inequalities gave way to more institutional forms of racism, where subtle, covert actions of institutions carry the racial inequalities of the past into the present. Geographic steering, the breadth and framing of information shared with prospective renters and homebuyers, the level of assistance with mortgage financing, and unequal assessments of creditworthiness are the discriminatory tactics of today.[39] These market practices that generate racially disparate outcomes require more rigorous testing to detect and, arguably, are more easily dismissed as individual incidences rather than systemic patterns.

The next section presents findings from recent national and regional studies that demonstrate how discriminatory housing practices still limit the residential choices of people of color and residents with low incomes within the context of private housing markets.

Steering by real estate agents

Racial steering occurs when real estate agents lead prospective homebuyers looking for comparable properties to different communities according to their race and ethnicity.[x] The federal Fair Housing Act prohibits any practice that restricts or attempts to restrict the residential choices of prospective homebuyers or renters based on their race, national origin, and familial status among other characteristics. Since the 1980s, the Act has virtually eradicated overt racial steering practices that resulted in blockbusting. National studies, however, identified more subtle forms of racial steering that continue to limit the residential choices of people of color.[40]

Studies that document steering and other discriminatory practices use paired testing. Paired testing is a process where prospective renters/owners of different races from identical socioeconomic backgrounds independently contact the same housing provider to detect differential treatment based on race. The technique has been used for both enforcement purposes and to investigate the incidence of discrimination in the market.[xi] Paired tests conducted across the nation detected three distinct types of steering practices in real estate markets:[41]

- *Information steering* involving instances where people of color received information on a more limited range of neighborhoods compared to whites.
- *Class steering* manifesting itself in situations where white clients were encouraged to consider more affluent neighborhoods than clients of color of comparable socioeconomic status.
- Most importantly, however, real estate agents racially steered prospective homeowners into different communities by using schools as a proxy for the racial composition of these communities.[42]

Audits conducted by National Fair Housing Alliance revealed a number of real estate practices that steered prospective homeowners to certain areas based on the racial demographics of schools.[43] In the most blatant cases of racial steering, white families were told to avoid certain neighborhoods because of ‘bad’ schools, while families of color were told the same schools were ‘good.’ In other instances,

[x] New technology changed the process of looking for a home, making it possible it for those who shop for homes to electronically search and select potential homes without the assistance of a real estate agent. To some extent, this may have reduced opportunities for racial steering by realtors. A recent study of home purchasing behavior, however, found that even though 42% of buyers find their home online, 89% of them use a realtor to complete their purchase. See Brad Stone, “Why Redfin, Zillow, and Trulia Haven’t Killed Off Real Estate Brokers,” *Business Week*, March 07, 2013.

[xi] Research testing differs from enforcement testing in that it usually covers a representative sample of available homes, rather than targeting properties and communities where discrimination is suspected. Enforcement testing often involves multiple tests of the same housing provider to establish the presence of discriminatory practices.

realtors made various illegal editorial comments about school districts to discourage potential white homebuyers from buying in neighborhoods of color. The audits showed that it was commonplace for realtors to inform white families about the quality of schools while families of color hardly heard about school quality as a factor in the process of home selection.

Anecdotal evidence suggests that racial steering practices based on schools might be happening in the Twin Cities region as well. At a number of public events, local officials—including mayors and school district superintendents—alleged that illegal steering behavior was happening within their jurisdictions. For instance, Richfield Mayor Debbie Goettel stated in a public event that, “I can tell you that there is steering in Richfield. I think you could do a study and find it pretty easily.”[44] At the same event, Melissa Krull, former superintendent of the Eden Prairie School District also talked about racial steering in Eden Prairie. She described how the growing racial diversity of the student body at the Forest Hills Elementary School following the move of Somali families into her district triggered racial steering in the area. She alleged that realtors were steering families of color toward that school attendance area while steering white families away. Former school superintendents from Burnsville and Robbinsdale also attested to the existence of steering in their school districts at a University of Minnesota Law School conference in 2008.[45]

While these anecdotes suggest the possibility of region-wide racial steering, they by no means present conclusive evidence on steering. The findings, however, point to the need to investigate the presence of such discriminatory practices on a continuing basis. The region needs to invest in an adequately funded testing and research program that could provide evidence for legal or other strategies to eliminate steering.

Mortgage lending discrimination

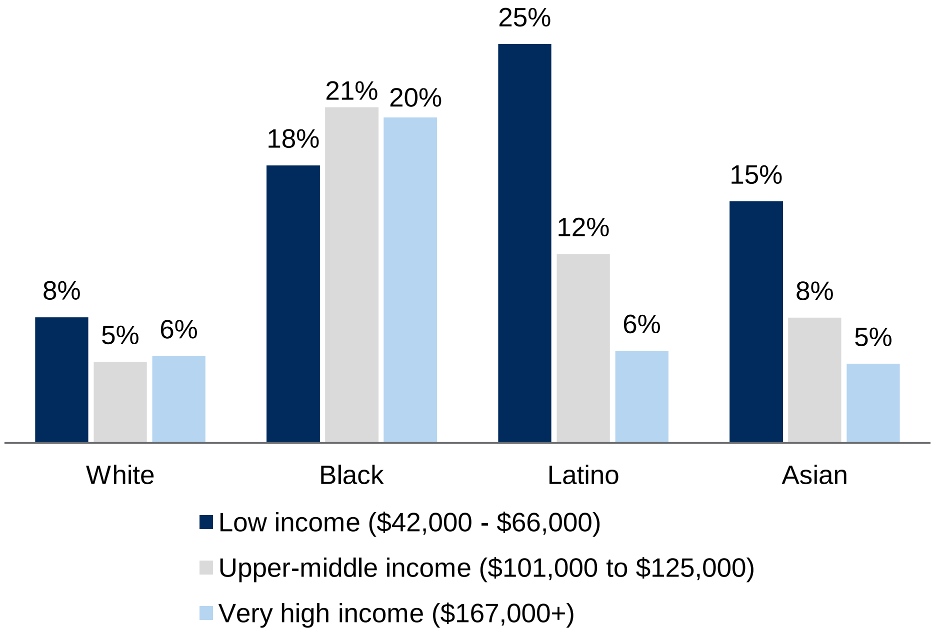
Historically, redlining resulting from discriminatory practices by private mortgage lenders and insurers based on federal underwriting guidelines severely restricted housing opportunities for people of color.[46] During the 1960s and 1970s, the federal government enacted a number of regulations to prohibit discrimination in credit transactions. The Fair Housing Act of 1964, the Equal Opportunity Act of 1974, and the Community Revitalization Act of 1977 effectively put an end to government-sanctioned redlining in private markets.

Until the 1990s, however, enforcement of these acts remained fairly limited because enforcement efforts were relegated to small-scale lawsuits of individual mortgage holders.[47] Enforcement efforts tightened during the 1992-2000 period, as the Department of Justice filed and won a number of high-profile lawsuits against individual mortgage companies that engaged in discriminatory practices.[48] Despite these high-profile lawsuits, federal regulations had limited success in addressing well-established disparities. Enforcement became especially difficult as more sophisticated financial products that emerged in the period leading up to the 2007 housing crisis made the private mortgage markets far more complicated and hard to regulate.[49]

In this period, a new discriminatory lending practice called ‘greenlining’ or ‘reverse redlining’ replaced redlining. This practice involved targeted predatory marketing of high-cost subprime loans to prospective homeowners of color. While applicants of color were systematically steered toward high-cost subprime loans, their access to prime loans remained disproportionately low even for the highest income borrowers of color.[50] National studies document racial disparities in subprime lending rates even after controlling for neighborhood characteristics and borrower traits such as individual credit factors.[51]

Racial disparities in prime and subprime lending are present in the Twin Cities region as well. Analyses of Home Mortgage Disclosure Act (HMDA) data find significant racial disparities in mortgage lending and the type of mortgage products made available to prospective homeowners in the Twin Cities region.[52] One study shows that even in the immediate aftermath of the housing crisis (2008-2010), lenders are still much more likely to deny home purchase loans to people of color.[53] For instance, Figure 4.4 shows that applicants of color have higher denial rates for home purchase loans than their white counterparts. The disparities in denial rates are particularly high for black mortgage applicants. Black applicants with very high incomes are more than twice as likely to be denied a home purchase loan as white applicants with low incomes. Latino applicants with low incomes are the most likely to be denied a home purchase mortgage, with one in four applications denied.

4.4 Percentage of home purchase loan applications denied by race and income of applicant in the Twin Cities region, 2008-2010

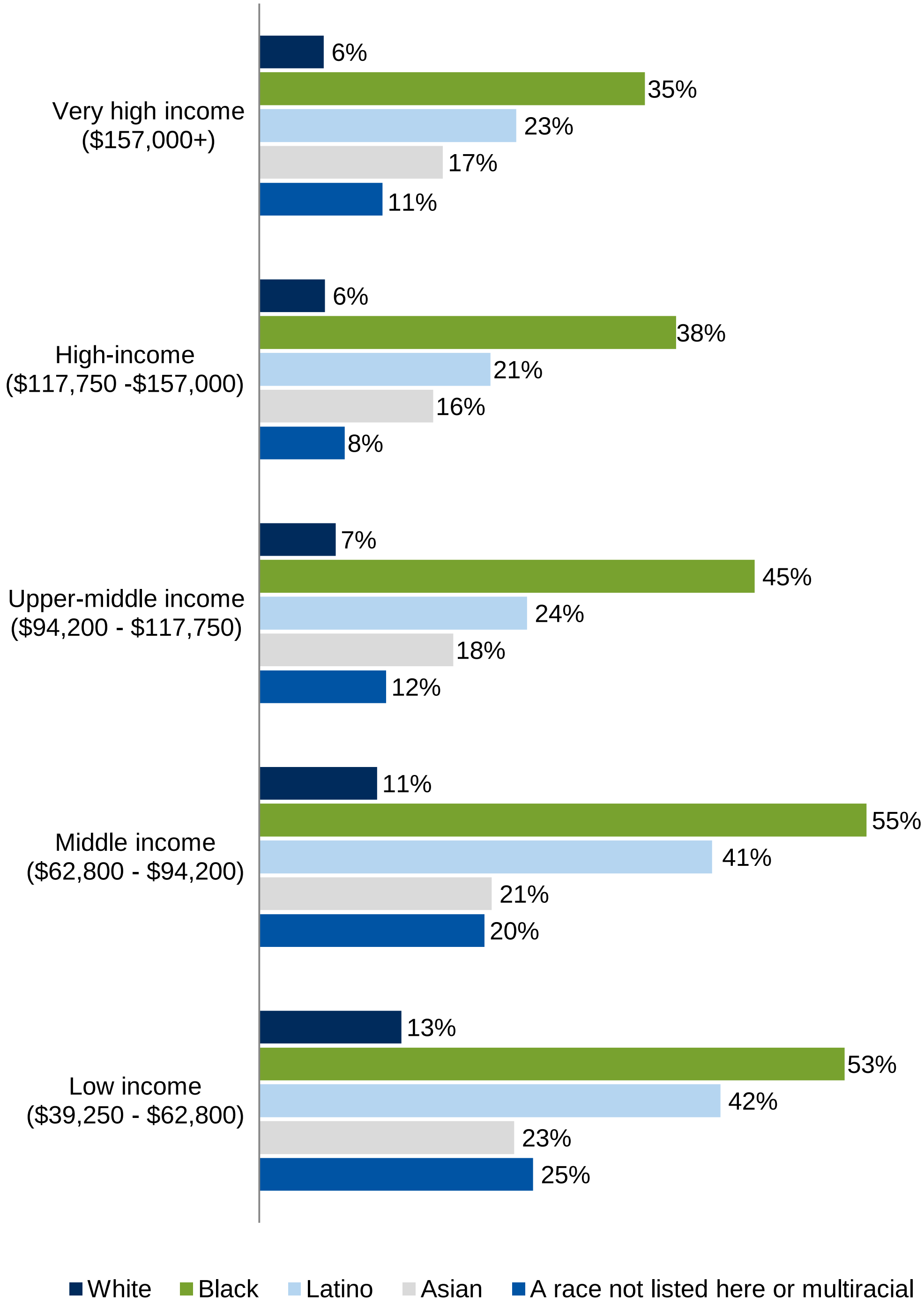


Source: Analysis of Home Mortgage Disclosure Act (HMDA) provided by Institute for Metropolitan Opportunity, 2013.

Note: The outcome of mortgage applications are reported in several cateogies, including origination approved and issued (originated); approved by the bank and declined by the applicant; denied by the bank; withdrawn by the applicant; or closed for incomplete information. This figure specifically refers to mortgage applications denied by the bank.

Lending disparities are not only based on the ability to obtain a loan but are also rooted in the type of loan received. A study that focuses on the period prior to the housing market crash (2004-2006) shows that applicants of color were more likely to receive subprime loans than their white counterparts.[54] For instance, Figure 4.5 demonstrates that blacks with very high incomes were nearly three times more likely to have received a subprime home purchase loan than whites with low incomes.

4.5 Percentage of subprime home purchase mortgage loans by race and income of borrower in the Twin Cities region, 2004-2006



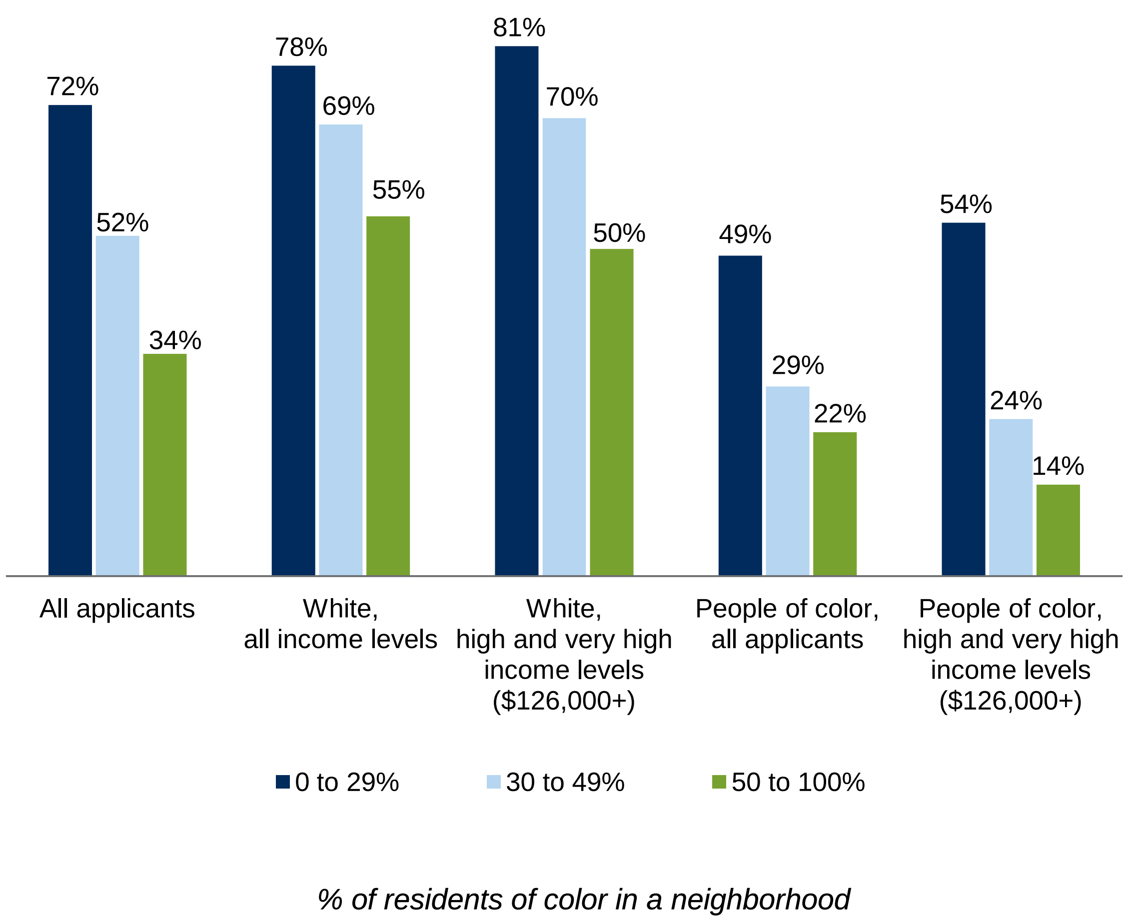
Source: Analysis of Home Mortgage Disclosure Act (HMDA) provided by Institute for Metropolitan Opportunity, 2013.

In addition to showing discrimination against individual applicants of color, the same study also provides evidence of discrimination against neighborhoods of color. It finds that both before and after the housing market crash, neighborhoods of color were underserved by prime lending institutions. Figure 4.6 demonstrates the variation in prime lending rates based on the racial composition of applicants and neighborhoods.

This data shows, for instance, that during the housing boom, 72% of mortgage seekers applied for a home purchase loan at a prime lender in neighborhoods where residents of color constituted less than 30% of all residents. In comparison, 52% of mortgage seekers applied for prime loans in neighborhoods where the percentage of residents of color ranged from 30% to 49%. Notably, this rate was only 34% in neighborhoods where more than half of the residents were residents of color.

Figure 4.6 also demonstrates that application disparities between whites and people of color exist within each type of neighborhood as well. However, the rate of applying at a prime lender goes down for both people of color and whites—including those with high and very high incomes—as the percent of people of color increases in the neighborhoods.

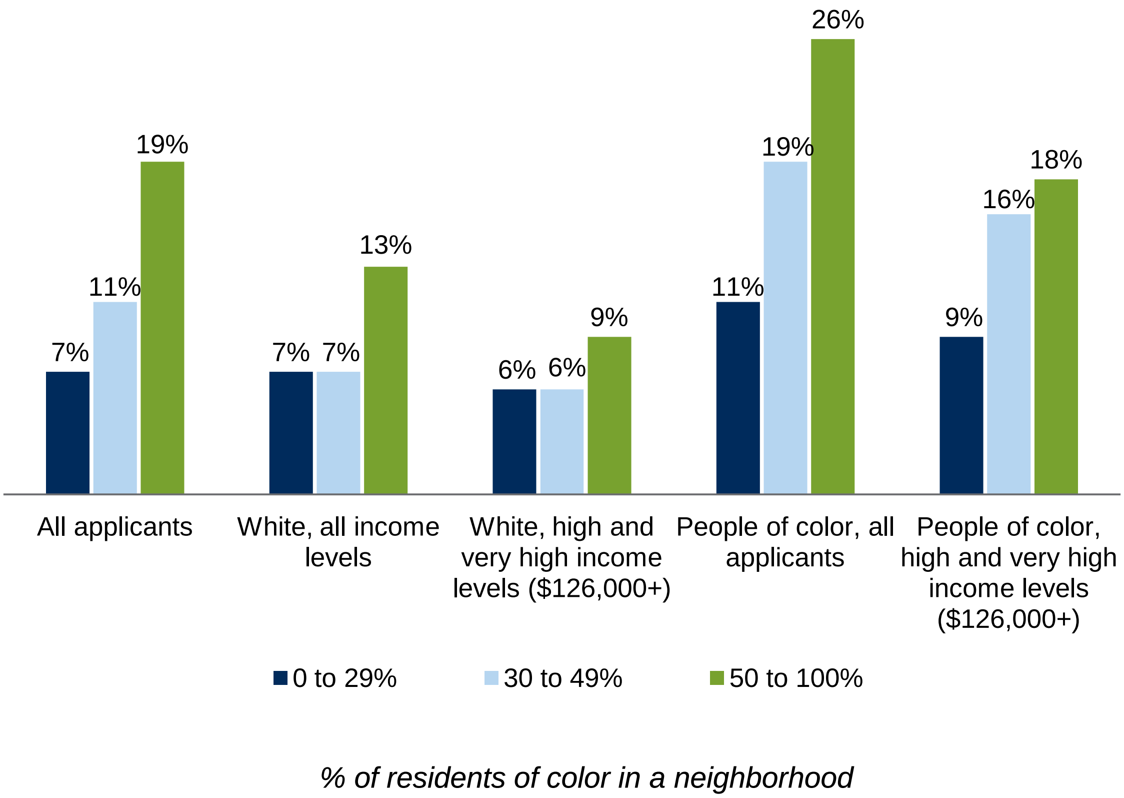
4.6 Percentage of home mortgage applications at prime lenders by racial characteristics of applicant and neighborhood in the Twin Cities region, 2004-2006



Source: Analysis of Home Mortgage Disclosure Act (HMDA) provided by Institute for Metropolitan Opportunity, 2013.

It is still more difficult to obtain prime mortgages in neighborhoods of color than in white neighborhoods even in the aftermath of the housing crisis. In fact, mortgage denial rates vary systematically based on the racial composition of neighborhoods. Figure 4.7 shows that mortgage denial rates for both people of color and whites, including those groups with high and very high incomes, increase as the percentage of people of color increases in neighborhoods.[55] Lenders typically explain racial disparities in loan denials as reflecting variations in credit history rather than racial bias. These claims are hard to evaluate without access to credit histories for loan denials and acceptances.[56] However, the record of disparities is so uniform and striking that it is hard to attribute this entirely to credit record disparities.

4.7 Percentage of home purchase mortgage applications denied by racial characteristics of applicant and neighborhood, 2008-2010

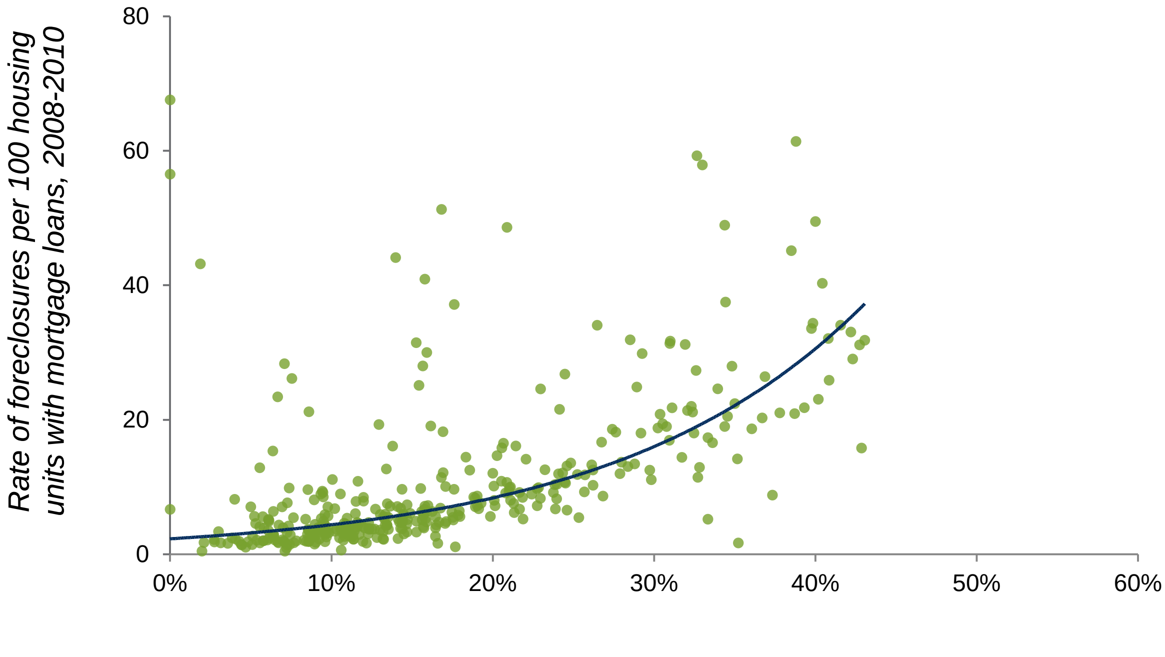


Source: Analysis of Home Mortgage Disclosure Act (HMDA) provided by Institute for Metropolitan Opportunity, 2013.

Steering of applicants of color to subprime products and predatory lending practices made homeowners of color more vulnerable to foreclosures in the aftermath of the housing crisis. As a result of these practices and the disparities mentioned above, foreclosures hurt homeowners and neighborhoods of color disproportionately.[57] The enormous costs of foreclosures—to families who lose their homes as well as to cities and towns losing tax resources—have been greatest for communities of color. Both subprime lending rates and foreclosure rates have been highest in neighborhoods with the highest percentages of people of color.

Figure 4.8 shows, for instance, that, in Hennepin and Ramsey Counties foreclosure rates climbed more rapidly when subprime lending rates in census tracts reached 40%. Most census tracts that reached this threshold were in neighborhoods with the lowest income and highest percentage of residents of color in the Twin Cities. For instance, neighborhoods with the highest foreclosure rates included areas in North Minneapolis, Saint Paul's East Side and Brooklyn Park.[58]

4.8 Relationship between subprime lending and foreclosures by census tract in Hennepin and Ramsey counties



Source: Home Mortgage Disclosure Act (HMDA) provided by Institute for Metropolitan Opportunity, 2013; U.S. Census Bureau, Decennial Census, 2000; Hennepin County Department of Taxpayer Services, 2008-2010; Ramsey County, Department of Property Tax Services, 2008-2010; records geocoded by Metropolitan Council, 2013.

The federal government responded to the mortgage market crisis by introducing new regulations through the Dodd-Frank bill. These regulations transformed the mortgage markets, virtually eliminated the subprime market, significantly tightened underwriting standards, and introduced the Qualified Mortgage and the Qualified Residential Mortgage requirements. While the new regulations are put in place to prevent the types of business practices that led to the recent foreclosure crisis, they may have the unintended consequence of limiting credit to low-income borrowers making small down payments or borrowers with poor credit histories.[59] The degree to which these new regulations will negatively affect low-income borrowers remains to be seen. Meanwhile, the disappearance of subprime mortgage products that traditionally served prospective homebuyers of color unintendedly created opportunities for a new type of discriminatory lending practice, namely 'contracts for deeds'.

The growing use of 'contracts for deed' in the aftermath of the foreclosure crisis has led to many abuses that disproportionately impact communities of color. Traditionally, contracts for deed served as an alternative to mortgage financing. As part of this arrangement, the purchaser makes installment payments to the seller over a period of time. The law considers the purchaser the equitable 'owner' of the home during the payment period. Contracts often include down payments, monthly payments, and a balloon payment after a period of 5 to 10 years. The buyer locks in the final purchase price, builds credit or waits until it is more broadly accessible, and then plans to finance the balloon payment. Unlike a mortgage loan, the law provides only a short time for the buyer of a contract for deed to cure a default and then strips the buyer of the entire investment if no cure is made.

In the waning days of the foreclosure crisis, investors started purchasing large numbers of foreclosed single-family homes, many of which had significant repair problems. The goal of these investors was to generate income from these properties without converting them to rental properties. Cities often charge rental conversion fees, require inspections, rental licenses, and insist on owner upkeep. By turning to contracts for deed, investors are able to create cash streams without bearing the financial burdens of rental property management. Since 2008, the use of contracts for deed increased by as much as 62% in Hennepin County.[60]

The Mid-Minnesota Legal Aid found that many of these contracts are predatory in that they include hidden terms designed to cause forfeiture.[61] For example, payment schedules may be interest-only, negatively amortizing or have balloon payments due after a short period of time. Without disclosures and plain-language requirements that apply to mortgage lending, purchasers often miss the terms buried in fine print. In the event of forfeiture, families lose the money they invested in down payments, monthly payments, and all of their equity.

Homes sold through contracts for deed are often in poor condition. Without the benefit of either pre-rental or point-of-sale inspections, the physical condition of homes sold through contracts for deed are often unknown to the purchaser. For instance, a study by the Star Tribune identified 370 homes sold through contracts for deed that were not inspected as required by local ordinances.[62] Similarly, the Mid-Minnesota Legal Aid has represented several families whose homes had undisclosed lead paint hazards, black mold, carbon monoxide leaks, and other dangerous conditions.[63] If families later discover the conditions and ask the seller to fix them, the seller typically refuses. A buyer of a contract for deed lacks the right to habitable conditions that protects tenants.

The Mid-Minnesota Legal Aid has encountered evidence of predatory contract-for-deed schemes targeted on the basis of race and national origin.[64] For instance, one large investor used the pastor of an exclusively Hispanic church, paying $2,000 kickbacks for each referral the pastor made. Another investor reportedly made racist comments about African Americans, admitting to a city of Minneapolis employee that he purchased his properties in Brooklyn Park because there are more African American buyers there than in other suburbs. According to Legal Aid, this investor conducts business in neighborhoods that African Americans are moving into and has sold nearly all of his 160 homes to African Americans. Similarly, in traditionally African American neighborhoods such as North Minneapolis, the ratio of contract-for-deed sales to all transactions is more than three times higher than the rest of the city, and is growing fast.[65]

Barriers to choice in private rental markets

Discriminatory housing practices as well as market transactions that produce disparate impacts on potential tenants of color are the main barriers to choice in private rental markets. Market conditions play a key role in determining the extent to which these barriers could limit the housing choices of people of color and low-income residents. In tight markets, where rental demand exceeds rental supply, landlords are in a position to be pickier when choosing potential tenants. This creates more possibilities for differential treatment of prospective tenants by race and ethnicity. In addition, rental practices shown to have disparate impact—such as tenant screening procedures—are more likely to exacerbate historic and emerging barriers to housing choice in tight rental markets.

Rental market trends in the Twin Cities region have been particularly tight as demand for rental housing continued to increase. In 2012, renter households accounted for 31% of all occupied housing, up from

26% in 2005.[66] The foreclosure crisis, among other factors, drove substantial numbers of homeowners into rental markets, tightening the market and driving vacancy rates down to historic lows. In 2012, Twin Cities average vacancy rate stood at 2.9%, compared to the vacancy rates of 6% to 7% in the early 2000s.[67]

The latest national survey of housing discrimination presents evidence on differential treatment of renters by race and ethnicity—practices that are no doubt made easier by the high level of competition among rental applicants. In 2012, HUD released its fourth decennial study of housing discrimination to determine the extent to which renters and homeowners of color experienced differential treatment in real estate markets.[68] The study used equally well-qualified prospective renters of different races to inquire about housing opportunities across 28 metropolitan areas. This pair-testing method was employed to consider a wide range of measures related to three main steps of a housing search: 1) the ability to make an appointment; 2) the availability of units; and 3) agents' willingness to show units.

Among other things, the study found that black, Latino, and Asian renters were as likely as white renters to make an appointment with a housing provider and be shown at least one unit. The results showed no evidence of statistically significant differences in the overall helpfulness, comments or questions of housing agents—an improvement from past studies.

Home seekers of color, however, were quoted slightly higher rents and were less likely to be informed of rent incentives. Housing agents less frequently told them about security deposits, other terms of the lease, and all of the payments required at move-in. The study also found that black renters were more likely to receive comments or questions about their credit standing.

Overall, HUD's 2012 study found signs of progress in regard to "the most blatant forms of housing discrimination." For instance, prospective tenants of color were more likely to obtain appointments for advertised units than they were in the last three decades. Despite these improvements, however, the findings above suggest that racially based differential treatment and its limiting effect on housing choice for people of color continue today.

Local surveys documented the continuing presence of the most blatant forms of housing discrimination in the Twin Cities region as well. Mid-Minnesota Legal Aid conducted a number of paired-testing studies for the Fair Housing Implementation Council (FHIC) in 2009, 2010, and 2012. Legal Aid tested 29 properties, several of them more than once, and some of these properties were publicly subsidized units. These studies found evidence of differential treatment based on race and national origin. Further, the testers documented examples of "differential treatment," including the following:

- A female Somali tester was treated differently than her white counterpart. Both called the housing provider around the same time but the Somali tester received a return call a week later than the white tester. When the housing agent spoke to the Somali tester, s/he stated that no units were available and there was a waiting list. When the housing agent spoke to the white tester, s/he stated that a unit was available and encouraged the tester to apply.

- An African American tester with distinctive vocal characteristics left multiple voicemail messages on a housing provider's answering machine; the calls were not returned. A white tester called the same housing agent and was told two units were available and scheduled an appointment to view the available units.

- An African American tester was quoted a higher monthly rent, a higher amount for the security deposit that included a nonrefundable portion, and higher costs for renting a community room. In addition, this tester was asked repeatedly about her/his employment and income, and told a criminal background check would be completed. Conversely, the white tester was not asked about their employment or income, and was not informed about a criminal background check.

As the Fair Housing Implementation Council acknowledges, this study does not provide conclusive evidence of systemic discrimination due to the small number of survey participants, but it is simply an indicator of likely problems.[69]

Other local studies confirm the presence of differential treatment in the region as well. As part of the 2011 statewide Analysis of Impediments study, 562 housing professionals and residents were surveyed.[70] The survey covered a wide array of topics, ranging from fair housing awareness and compliance to various other barriers to housing choice in the private and public housing markets. About a quarter of respondents indicated they were aware of discrimination in the private rental market. When asked to describe these practices in their own words, they offered the following observations:

- denial of available vacant units based on race, national origin, sex, and familial status;
- refusal to rent to prospective tenants who belong to protected classes such as black, Native American, and especially immigrant applicants;
- discriminatory terms and conditions within rental agreements and in rental advertising;
- a general lack of interest in or understanding of fair housing by housing providers.

In addition to race-based differential treatment, housing choice may also be limited by practices shown to have "disparate impact" on prospective tenants of color. Although actions, processes or policies that have disparate impact are race-neutral or nondiscriminatory, they nevertheless have a disproportionate and adverse impact on protected classes.[71]

Beginning in 2005, multiple landlords have filed legal actions against the cities of Minneapolis and Saint Paul asserting that the cities' adoption and enforcement of their respective building codes is a violation of the Fair Housing Act. The actions have been filed as litigation under the Fair Housing Act,[72] and the federal False Claims Act,[73] as well as administrative complaints to HUD's Office of Fair Housing and Equal Opportunity.[74]

In each of these matters, the plaintiffs are private-sector landlords who own and manage housing units within the cities of Minneapolis and Saint Paul. The landlords assert that they provide important affordable housing options to low-income renters who are primarily people of color. They allege that the two cities have each adopted a municipal housing code that is more stringent than the State of Minnesota building code. They go on to assert that by adopting and enforcing those more stringent housing codes, affordable housing choices for low-income persons of color in the two cities are unjustifiably restricted because landlords are required to perform excessive, expensive, and unnecessary repairs in order to obtain or retain the ability to legally lease their units to prospective tenants. Saint Paul and Minneapolis respond by asserting that the adoption and enforcement of the housing codes promotes minimum property maintenance standards, provides safe and habitable housing, and promotes safe and livable neighborhoods. No Court has adopted the landlords' arguments in a final judgment or order; several of these cases remain pending.

Tenant screening is another example of a business practice that might create disparate impact in rental markets. Widespread reliance on tenant screening reports might constitute a significant barrier to choice for protected classes, especially those with past credit problems, evictions, limited or poor rental histories, or criminal backgrounds.

In the Twin Cities region, it is common practice for private landlords and property management companies to screen prospective tenants by hiring third-party providers.[75] These companies provide reports on an applicant's credit history, current employment, and income as well as court filings related to evictions and criminal activity. Minnesota Statute 504B.17 requires landlords to inform prospective tenants about how they intend to use the screening findings. For instance, if their policy is not to rent to applicants with prior evictions, they need to inform applicants about this. In addition, the federal Fair Credit Report Act requires landlords to provide tenants with the name and contact information for the screening company. When followed, these regulations afford tenants a certain level of transparency around how their private information will be used and provide access to the source of the information.

While landlords adhere to the letter of these regulations, often they do so in ways that do not serve their spirit. For instance, a 2004 HousingLink study found that rental applicants are frequently the "last to know" when adverse information appears in the tenant screening report.[76] They are usually informed only at the end of the process, often by a letter from the landlord rejecting their application for the unit. This does not allow them to refute inaccurate information or give them the opportunity to strengthen their case as qualified applicants by providing updated information about recent employment or willingness to pay a higher security deposit.

Furthermore, eviction court filings in Minnesota do not generally include the outcome of the case. This means that an eviction action that may have been dismissed or won by the defendant will still appear in a county database and subsequently in a tenant screening report.[77] Because people of color and female-headed households with children are overrepresented in eviction cases, they may be disproportionately affected by this practice.[78]

The use of criminal records in tenant screening reports also has a potential disparate impact on prospective tenants of color.[79] In Minnesota, as in the rest of the nation, people of color, especially blacks and Latinos, are over-represented in the criminal justice system.[80] Given this over-representation, the blanket use of criminal records as a screening criterion may affect people of color disproportionately, further limiting their housing choices.

Finally, the cost of tenant screenings contributes to the application fees that prospective tenants have to pay. Prospective tenants are often charged $20 to $40 per application, without any guarantee that they will be qualified and accepted to rent the unit. This makes extensive housing searches cost-prohibitive for low-income residents.[81] One voucher holder resident from Brooklyn Park made the point succinctly:

> *When you call and ask about an apartment, they say you have to pay the application fee, usually $35. It's nonrefundable. Then, if they won't lease to you, you go again; pay another fee. Who has the money for that?*

To sum up, the discussion above confirms that overt racial discriminatory practices as well as racially-neutral tenant screening practices, which have disparate negative impacts on low-income tenants of color, continue to limit their residential choices in rental markets.

As Section Four demonstrates, people of color and low-income renters face a number of barriers to housing choice in both publicly subsidized and private rental markets—barriers that range from overt differential treatment of people of color to race-neutral business practices that produce disparate impacts on people of color and low-income renters.

The findings show that racial barriers above and beyond socioeconomic barriers still limit the residential preferences of people of color. In fact, the role of racial barriers, compared to socioeconomic barriers, seems to be increasing in the Twin Cities region even as it is declining in most other metropolitan areas of the nation.

The findings also demonstrate that residential preferences continue to shape the region's residential patterns in ways that that promote growing racial segregation. On one hand, the growing preference of residents of color to live in the suburbs is increasing racial diversity in most suburban areas. On the other hand, the movement of white residents away from racially diverse communities, combined with the preference of most new immigrants to live with communities of their own ethnicity is increasingly concentrating people of color in certain areas—often in areas of concentrated poverty.

Meanwhile, federal housing policies continue to raise challenges for the region's low-income residents, who are increasingly people of color, and prevent them from fully realizing their residential choices. The ongoing decline in federal resources for housing assistance especially hurts low-income residents as these resources increasingly fall short of addressing the existing shortage of affordable housing across the region. Existing federal programs such as Section 8, CDBG, HOME, and LIHTC are inadequate to give all low-income residents the opportunity to reside in communities where they would like to live.

Despite existing efforts to expand affordable housing, NIMBYism still limits the production of affordable housing especially in suburban communities. This geographically limits the residential choices of low-income people, including low-income people of color, to areas where affordable housing is more available.

The findings above also suggest that discrimination in private housing markets continues to reinforce existing color lines, albeit in different ways. Rather than blockbusting, now a new type of racial steering, where potential homebuyers are steered based on school locations and demographics, limits residential choices and perpetuates segregation across the nation. While anecdotal data suggests the presence of this type of racial steering in the region, more systematic research is needed to understand its extent.

Section Four reveals that while de jure redlining is long gone, de facto redlining that operates through different market mechanisms is still alive. The findings show that regional racial disparities in mortgage lending continue to limit the access of people of color to primary mortgage loans that can afford them homeownership on favorable economic terms.

While the recent housing crisis and the ensuing federal regulations brought an end to the discriminatory practice of predatory marketing of subprime mortgages to people of color, there are signs that a new predatory practice, namely contract for deeds, has emerged in its place. This practice threatens to strip prospective home buyers of color of equity, disproportionately undermining their ability to be homeowners.

Finally, evidence from local and national studies confirm that overt racial discrimination as well as race-neutral tenant-screening practices with their disparate impacts on low-income renters of color, continue to prevent prospective renters of color from renting in areas they prefer to live.

Section Five will investigate how this wide range of race-specific barriers, which collectively hinder the ability of people of color to leave areas of concentrated poverty, create and perpetuate Racially Concentrated Areas of Poverty (RCAPs). The section will define and describe the region's RCAPs, examine the historical factors that created them, and provide detailed profiles of specific RCAP communities.

[1] Jens Ludwig, Greg J. Duncan, Lisa A. Gennetian, Lawrence F. Katz, Ronald C. Kessler, Jeffrey R. Kling, and Lisa Sanbonmatsu, "Long-Term Neighborhood Effects on Low-Income Families: Evidence from Moving to Opportunity," *American Economic Review Papers and Proceedings* 103, no. 3 (May 2013): 226-231.
[2] Patrick Sharkey and Felix Elwert, "The Legacy of Disadvantage: Multigenerational Neighborhood Effects on Cognitive Ability," *American Journal of Sociology,* 116, no. 6 (May 2011): 1934-1981.
[3] Patrick Sharkey, "Neighborhoods and the Black-White Mobility Gap," (Washington, DC: The Economic Mobility Project, The Pew Charitable Trusts, July 2009).
[4] For current disparities in Minnesota, see State of Minnesota Department of Public Safety Bureau of Criminal Apprehension, "Minnesota Crime Information," 2011. For a study that documents employment discrimination in parts of the area, see The Blue Ribbon Commission on Reducing Racial Employment Disparities, "A Report to Reduce Racial Employment Disparities in the Ramsey County Metropolitan Area," September 2011, available at http://www.rcwib.org/Aboutus/BRC/BRCReport.pdf.
[5] The remaining 6% of residential segregation was due to the combined effects of race and income. Metropolitan Council staff calculated these figures based on the 1990 and 2000 decennial censuses and 2007-2011 American Community Survey data, by using a methodology similar to that of Mary J. Fischer, "The Relative Importance of Income and Race in Determining Residential Outcomes in U.S. Urban Areas, 1970-2000," *Urban Affairs Review*, vol. 38, no. 5 (May 2003): 669-696; and Vincent P. Miller and John M. Quigley, "Segregation by Racial and Demographic Group: Evidence from the San Francisco Bay Area," *Urban Studies*, vol. 27, no. 1 (1990): 3-21.
[6] Among the largest 50 metropolitan areas, the average share of total segregation that is due to race declined from 55% in 1990 to 52% during the 2007-2011 period. Meanwhile, the average share of segregation due to socioeconomic variations stayed roughly the same—44% in 1990 compared to 43% during the 2007-2011 period.
[7] Camille Zubrinsky Charles, "The Dynamics of Racial Residential Segregation," *Annual Review of Sociology*, vol. 29 (2003): 167-207; Camille Zubrinsky Charles, "Can We Live Together? Racial Preferences and Neighborhood Outcomes," in Xavier de Souza Briggs (ed.), *The Geography of Opportunity: Race and Housing Choice in Metropolitan America.* (Washington, D.C.: Brookings Institution Press, 2005), pp. 45-80; Keith Ihlanfeldt and Benjamin Scafidi, "Whites' Neighborhood Racial Preferences and Neighborhood Racial Composition in the United States: Evidence from the Multi-City Study of Urban Inequality," *Housing Studies*, vol. 19, no. 3 (2004): 325-359; Mary Patillo, "Black Middle-Class Neighborhoods," *Annual Review of Sociology*, vol. 31 (2005): 305-329; Lincoln Quillian, "Why is Black-White Residential Segregation So Persistent? Evidence on Three Theories from Migration Data," *Social Science Research* 31 (2002): 197-229.
[8] David Card, Alexandre Mas, and Jesse Rothstein, "Tipping and the Dynamics of Segregation," The National Bureau of Economic Research Working Paper, No. 13052, April 2007.
[9] In his analysis of the nation's largest 100 metropolitan areas in 1990, David Rusk finds that controlling for income, the home values of black homeowners were 18% less than those of their white counterparts. Rusk likens this racial gap in home values to a 'segregation tax' that is imposed on black homeowners. He finds that the higher the degree of racial segregation in a metropolitan area, the wider is this racial gap. See David Rusk, "The 'Segregation Tax': The Cost of Racial Segregation to Black Homeowners," (The Brookings Institution, Center on Urban and Metropolitan Policy Survey Series, October 2001).
[10] Sheryll D. Cashin, "Middle-Class Black Suburbs and the State of Integration: A Post-Integrationist Vision for Metropolitan America," *Cornell Law Review,* vol. 86 (2001): 729-776.
[11] The disproportionate impact of these programs on communities of color was so prominent that critics of the program referred to 'urban renewal' programs as "Negro removal" programs. David Rusk, Inside Game/Outside Game: Winning Strategies for Saving Urban America. (Washington, D.C.: Brookings Institution Press, 1999), p. 90.
[12] Douglas S. Massey, "Origins of Economic Disparities: The Historical Role of Housing Segregation," in James H. Carr and Nandinee K. Kutty (eds.), Segregation: The Rising Costs for America. (New York: Routledge, 2008), pp. 39-80; Margery Austin Turner, "Residential Segregation and Employment Inequality," in James H. Carr and Nandinee K. Kutty (eds.), Segregation: The Rising Costs for America. (New York: Routledge, 2008), pp. 151-196; Ingrid Gould Ellen, "Continuing Isolation: Segregation in America Today," in James H. Carr and Nandinee K. Kutty (eds.), *Segregation: The Rising Costs for America.* (New York: Routledge, 2008), pp. 261-278.
[13] Civil rights activists used Title VI of the Civil Rights Act of 1964 and the Equal Protection Clause of the U.S. Constitution to challenge HUD's approval of public housing projects in racially segregated, high-poverty neighborhoods.
[14] Determined in Shannon v. U.S. Department of Housing and Urban Development, 436 F.2d 809 (3d Cir. 1970).
[15] John Goering, "Expanding Housing Choice and Integrating Neighborhoods: The MTO Experiment," in Xavier de Souza Briggs (ed.), *The Geography of Opportunity: Race and Housing Choice in Metropolitan America,* (Washington, D.C.: The Brookings Institution, 2005), pp. 127-149; James Rosenbaum, Stefanie DeLuca, and Tammy Tuck, "New Capabilities in New Places: Low-Income Black Families in Suburbia," in Xavier de Souza Briggs (ed.), *The Geography of Opportunity: Race and Housing Choice in Metropolitan America,* (Washington, D.C.: The Brookings Institution, 2005), pp. 150-175; Susan J. Popkin and Mary K. Cunningham, "Beyond the Projects: Lessons from Public Housing Transformation in Chicago," in Xavier de Souza Briggs (ed.), *The Geography of Opportunity: Race and Housing Choice in Metropolitan America,* (Washington, D.C.: The Brookings Institution, 2005), pp. 176-196; Philip D. Tegeler, "The Persistence of Segregation in Government Housing

Programs," in Xavier de Souza Briggs (ed.), *The Geography of Opportunity: Race and Housing Choice in Metropolitan America,* (Washington, D.C.: The Brookings Institution, 2005), pp. 197-216.
[16] Jill Khadduri, "Creating Balance in the Locations of LIHTC Developments: The Role of Qualified Allocation Plans," Prepared for Poverty and Race Research Action Council by Abt Associates Inc., February 2013.
[17] Hope VI Program Authority and Funding History, available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/ph/hope6/about.
[18] The Glendale project in Southeast Minneapolis was a significant exception to this pattern. This project was built to house the veterans of the World War II in 1950s. See Lolla Mohammed Nur, "Glendale: A Prospect Park Enclave," *Minnesota Daily*, December 9, 2009.
[19] Edward Glenn Goetz, *Clearing the Way: Deconcentrating the Poor in Urban America.* (The Urban Institute, 2003), p. 139.
[20] For examples of such NIMBY opposition in Apple Valley, Woodbury, and Forest Lake, see Sarah Lemagie, "Continued: Affordable Housing Plans Divide Residents," *Star Tribune*, August 2, 2008; Bob Shaw, "The War Over Affordable Housing," *Pioneer Press,* June 29, 2008.
[21] Office of the Legislative Auditor, "Affordable Housing," Program Evaluation Report, January 2001, p. 62. The record of Maple Grove in terms of affordable housing construction improved during the 2000s. Currently, the city runs a small scattered-site rental housing program. In addition, it hosts a small number of affordable housing developments run by various nonprofit organizations.
[22] See Mary Oregan, "Tangletown Torn Over Creekside Commons," *Southwest Journal*, October 8, 2007, available at: http://www.southwestjournal.com/node/10108.
[23] See Dwight Hobbes, "Sholom Homes Site Development Stopped Before It Begins," *Twin Cities Daily Planet*, October 8, 2008, available at http://www.tcdailyplanet.net/article/2008/10/08/sholom-home-site-development-stopped-it-begins.html.
[24] Terri Smith, Metro HRA, personal communication, December 17, 2013.
[25] See Marlys Harris, "After six years, she finally got Section 8 housing—and then lost it," *Minnpost*, April 15, 2013, available at: http://www.minnpost.com/cityscape/2013/04/after-six-years-she-finally-got-section-8-housing-and-then-lost-it.
[26] Minn. Stat. § 363A.16 Subd. 2(c).
[27] *Edwards v. Hopkins Plaza Ltd. Partnership, 783 N.W.2d 171 (2010).*
[28] Douglas S. Massey, "Origins of Economic Disparities: The Historical Role of Housing Segregation," in James H. Carr and Nandinee K. Kutty (eds.), *Segregation: The Rising Costs for America.* (New York: Routledge, 2008), p. 40.
[29] In 1917, the Supreme Court of the United States decided in the case of Buchanan v. Warley that racial residency statutes forbidding blacks from living in white neighborhoods violated the 14th Amendment of the US Constitution.
[30] Douglas S. Massey, "Origins of Economic Disparities: The Historical Role of Housing Segregation," in James H. Carr and Nandinee K. Kutty (eds.), *Segregation: The Rising Costs for America.* (New York: Routledge, 2008), pp. 55-56.
[31] In the Shelley v. Kraemer (1948) case, the Supreme Court outlawed the states' legal enforcement of racially restrictive covenants in state courts.
[32] The term 'sundown town' originates from a community in California which posted a sign by the town border that warned African Americans not to stay in the community after sunset. For an in-depth analysis of the history of sundown towns in the U.S., see James W. Loewen, *Sundown Towns: A Hidden Dimension of American Racism.* (New Press, 2005).
[33] See Maurine Boie, "A Study of Conflict and Accommodation in Negro-White Relations in the Twin Cities Based on Documentary Sources," University of Minnesota Master's Thesis (1932), pp. 6-16 for a compilation of 20 different cases of violence and intimidation in the Twin Cities area.
[34] For a detailed account of this incident, see Calvin F. Schmid, *Social Saga of Two Cities: An Ecological and Statistical Study of Social Trends in Minneapolis and Saint Paul.* (Minneapolis: The Minneapolis Council of Social Agencies Bureau of Social Research, 1937), pp. 186-187.
[35] Dmitri Mehlhorn, "A Requiem for Blockbusting: Law, Economics, and Race-Based Real Estate Speculation," *Fordham Law Review* 67 (December 1998): 1145–1161.
[36] These tactics included practices like hiring black women to push strollers in white neighborhoods, selling a house to a black family to provoke white flight, buying houses only to leave them unoccupied to make the neighborhood look abandoned, and saturating communities with fliers that offered quick cash for home sales. For details of such practices, see Dmitri Mehlhorn, "A Requiem for Blockbusting: Law, Economics, and Race-Based Real Estate Speculation," *Fordham Law Review* 67 (December 1998): 1145–1161.
[37] Dmitri Mehlhorn, "A Requiem for Blockbusting: Law, Economics, and Race-Based Real Estate Speculation," *Fordham Law Review* 67 (December 1998): 1145–1161.
[38] Metropolitan areas with large percentages of people of color with sizable middle-class residents of color were more likely to experience blockbusting. This might explain why the practice was prevalent in the Twin Cities region.
[39] "Housing Discrimination Against Racial and Ethnic Minorities," U.S. Department of Housing and Urban Development Office of Policy Development and Research, June 2013.

[40] George Galster and Erin Godfrey, “By Words and Deeds: Racial Steering by Real Estate Agents in the U.S. in 2000,” *Journal of the American Planning* Association, vol. 71, no. 3 (Summer 2005): 251-268; Margery Austin Turner et al., *Discrimination in Metropolitan Housing Markets: National Results from Phase I of HDS 2000* (Washington, D.C.: U.S. Department of Housing and Urban Development, 2002); National Fair Housing Alliance, “Unequal Opportunity—Perpetuating Housing Segregation in America,” *2006 Fair Housing Trends Report* (April 2006); Margery Austin Turner et al., *Housing Discrimination Against Racial and Ethnic Minorities 2012* (Washington, D.C.: U.S. Department of Housing and Urban Development, 2013).
[41] Margery Austin Turner et al., *Discrimination in Metropolitan Housing Markets: National Results from Phase I of HDS 2000* (Washington, D.C.: U.S. Department of Housing and Urban Development, 2002).
[42] National Fair Housing Alliance, “Unequal Opportunity—Perpetuating Housing Segregation in America,” *2006 Fair Housing Trends Report* (April 2006). National Fair Housing Alliance, “The Crisis of Housing Segregation,” *2007 Fair Housing Trends Report* (April 2007).
[43] National Fair Housing Alliance, “Unequal Opportunity—Perpetuating Housing Segregation in America,” *2006 Fair Housing Trends Report* (April 2006). National Fair Housing Alliance, “The Crisis of Housing Segregation,” *2007 Fair Housing Trends Report* (April 2007).
[44] Mayor Goettel made this comment at a forum sponsored by the Institute on Metropolitan Opportunity at the University of Minnesota Law School on November 15, 2012. For a recording of this event, see http://www.law.umn.edu/metro/index.html.
[45] “Region: Law, Policy and the Future of the Twin Cities,” Institute on Race and Poverty Conference held at the University of Minnesota Law School, October 24, 2008.
[46] Kathleen Engel and Patricia McCoy, “From Credit Denial to Predatory Lending: The Challenge of Sustaining Minority Homeownership” in James H. Carr and Nandinee K. Kutty (eds.), *Segregation: The Rising Costs for America*. (New York: Routledge, 2008), pp. 81-123.
[47] Shanna L. Smith and Cathy Cloud, “Welcome to the Neighborhood? The Persistence of Discrimination and Segregation” in Chester Hartman and Gregory D. Squires (eds.) *The Integration Debate: Competing Futures for American Cities.* (New York: Routledge, 2010), pp. 11-12; Kathleen Engel and Patricia McCoy, “From Credit Denial to Predatory Lending: The Challenge of Sustaining Minority Homeownership” in James H. Carr and Nandinee K. Kutty (eds.), *Segregation: The Rising Costs for America*. (New York: Routledge, 2008), pp. 86-87.
[48] Kathleen Engel and Patricia McCoy, “From Credit Denial to Predatory Lending: The Challenge of Sustaining Minority Homeownership” in James H. Carr and Nandinee K. Kutty (eds.), *Segregation: The Rising Costs for America*. (New York: Routledge, 2008), pp. 86-87.
[49] The growing reliance of lenders on third-party originators (mortgage brokers) and the emerging practice among Wall Street financial companies of issuing mortgage-backed securities dramatically changed the landscape of the mortgage industry. This meant a noticeable shift away from regulated underwriting and standard products to unregulated ones in private lending, making fair-lending enforcement especially challenging. For details of these practices, see Delvin Davis, “Mortgages: The State of Lending in America and Its Impact on U.S. Households,” Center for Responsible Lending, December 2012, pp. 27 and 29.
[50] William Apgar and Allegra Calder, “The Dual Mortgage Market: The Persistence of Discrimination in Mortgage Lending,” in *The Geography of Opportunity: Race and Housing Choice in Metropolitan America,* ed. Xavier de Souza Briggs (Washington, D.C.: Brookings Institution Press, 2005.
[51] Debbie G. Bocian, Keith S. Ernst, and Wei Li, “Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages.” Center for Responsible Lending (2006); Thomas P. Boehm, Paul D. Thistle, and Alan Schlottman, “Rates and Race: An Analysis of Racial Disparities in Mortgage Rates,” *Housing Policy Debate,* vol. 17, no. 1 (2006); Paul Calem, Kevin Gillen and Susan Wachter, “The Neighborhood Distribution of Subprime Mortgage Lending,” *Journal of Real Estate Finance and Economics*, vol. 29, no. 4 (2004): 393-410; Marsha J. Courchane, Brian J. Surette and Peter M. Zorn, “Subprime Borrowers: Mortgage Transitions and Outcomes,” *Journal of Real Estate Finance and Economics,* vol. 29, no. 4 (2004): 365-392.
[52] Institute on Race and Poverty, “Communities in Crisis: Race and Mortgage Lending in the Twin Cities,” February 2009; Institute on Metropolitan Opportunity analysis of HMDA data from the Federal Financial Institution Examination Council, September 2013.
[53] Institute on Metropolitan Opportunity analysis of HMDA data from the Federal Financial Institution Examination Council, September 2013.
[54] Institute on Race and Poverty, “Communities in Crisis: Race and Mortgage Lending in the Twin Cities,” February 2009. For anectodal evidence of such practices in the Twin Cities region, see Sarah Rose Miller and Samantha Labrasca, “Minorities in Twin Cities more likely to pay more for mortgages,” MinnPost, April 25, 2013.
[55] This relationship remains after controlling for other neighborhood characteristics correlated with race. Census tract denial rates in the Twin Cities in 2009 were still positively associated with the percentages of the population that were black, Latino or

Asian after controlling for the median income and owner occupancy rate with multiple regression analysis. See Institute on Metropolitan Opportunity analysis of HMDA data from the Federal Financial Institution Examination Council, September 2013.
[56] A recent study that controlled for FICO scores in examining racial disparities in mortgage lending found that much but not all of the racial disparity in loan outcomes can be explained by racial differences in credit scores. Yet, the study suggested that if credit scores themselves vary by race, then the use of FICO scores in and of itself could be a racially discriminatory mechanism in accessing mortgage loans. See Sheila D. Ards, Inhyuck Steve Ha, Jose-Luis Mazas, and Samuel L. Myers, "Bad Credit and Intergroup Differences in Loan Denial Rates," *The Review of Black Political Economy,* March 2014.
[57] For a recent study that demonstrates the extent to which racial segregation impacted the geographic patterns of foreclosures across the nation, see Jacob S. Rugh and Douglas S. Massey, "Racial Segregation and the American Foreclosure Crisis," *American Sociological Review,* vol. 75, no. 5, pp. 629-651.
[58] Minnesota Housing Finance Agency, "Residential Foreclosures in Minnesota," Planning, Research, and Evaluation Report, Spring 2013.
[59] Marsha J. Courchane, Leonard C. Kiefer, Peter M. Zorn, "Underwriting Standards, Loan Products and Performance: What Have We Learned?" Joint Center for Housing Studies, Harvard University, October 2013.
[60] City of Minneapolis Assessors office data compiled by Luke Grundman and Jay Wilkinson,Mid-Minnesota Legal Aid, personal communication January 7, 2014.
[61] Luke Grundman and Jay Wilkinson,Mid-Minnesota Legal Aid, personal communication January 7, 2014.
[62] See Jeffrey Meitrodt, "Contract for deed can be house of horror by buyers," January 14, 2013, available at http://www.startribune.com/local/185756982.html.
[63] Luke Grundman and Jay Wilkinson,Mid-Minnesota Legal Aid, personal communication January 7, 2014.
[64] Luke Grundman and Jay Wilkinson,Mid-Minnesota Legal Aid, personal communication January 7, 2014.
[65] City of Minneapolis Assessors office data compiled by Luke Grundman and Jay Wilkinson,Mid-Minnesota Legal Aid, personal communication January 7, 2014.
[66] Matt Schroeder and Krysten Ryba-Tures, "The Twin Cities in 2012: An Uneven Recovery," (Metropolitan Council MetroStats: September 2013).
[67] GVA Marquette Advisors, "Apartment Trends: Twin Cities Metro Area", Fourth Quarter 2006, 2007, and 2012. To put things in perspective, real estate professionals consider rental markets to be in equilibrium when vacancy rates are around 5%.
[68] "Housing Discrimination Against Racial and Ethnic Minorities," US Department of Housing and Urban Development Office of Policy Development and Research, June 2013.
[69] Jay Wilkinson, "DRAFT Fair Housing Survey Testing Results—2009,2011 and 2012," Mid-Minnesota Legal Aid, provided in personal communication October 2013.
[70] The State of Minnesota: Department of Employement and Economic Development, Housing Finance Agency and Department of Human Services, "2011 Minnesota Analysis of Impediments to Fair Housing Choice For Plan Years 2012-2016," October 3, 2012.
[71] U.S. Department of Housing and Urban Development Office of Fair Housing and Equal Opportunity, "Fair Housing Plannig Guide Volume 1," available at: http://www.hud.gov/offices/fheo/images/fhpg.pdf.
[72] See, for example: *Gallegher et al v. Magner et al,* 619 F.3d 823 (8th Cir. 2010); *Ellis v. City of Minneapolis et.al,* United States District Court File No. 12-cv-57-001; *Smithrud v. City of St. Paul et.al,* United States District Court File No.10-cv-4452; *Smithrud v. City of Minneapolis et. al,* United States District Court File No. 10-cv-4451.
[73] See, e.g.: *United States of America ex rel Ellis v. City of Minneapolis and City of St. Paul,* United States District Court File No. 11-cv-416.
[74] See, e.g.: *Raven Financial, LLC v. Minnesota Housing Finance Agency, State of Minnesota, City of Saint Paul, et. al.* Charge of Discrimination Filed 11/15/2013.
[75] In 2004, the Fair Housing Implementation Council (FHIC) commissioned HousingLink, a statewide nonprofit housing organization, to study tenant screening practices in Minneapolis and Saint Paul. Housing Link conducted interviews with local tenant screening agencies about their data sources and products and surveyed 308 housing professionals, including private landlords and management companies. Among other things, the study found that the use of tenant screening reports was widespread across the region and that the quality and content of these reports varied widely across the region. See HousingLink, "Tenant Screening Agencies in the Twin Cities: An Overview of Tenant Screening Practices and Their Impact on Renters," 2004.
[76] HousingLink, "Tenant Screening Agencies in the Twin Cities: An Overview of Tenant Screening Practices and Their Impact on Renters," 2004.
[77] Lael Robertson, Mid-Minnesota Legal Aid, Personal Communication, November 2013.
[78] Chester Hartman and David Robinson, "Evictions: The Hidden Housing Problem," *Housing Policy Debate*, vol. 14, no. 4 (2003): pp. 461, 467-468.
[79] Merf Ehman, "Fair Housing Disparate Impact Claims Based on the Use of Criminal and Eviction Records in Tenant Screening Policies, Columbia Legal Services, 2011.

[80] For current disparities in Minnesota, see State of Minnesota Department of Public Safety Bureau of Criminal Apprehension, “Minnesota Crime Information,” 2011.
[81] If fees are charged, Minnesota Statute 504B.173 stipulates several requirements such as providing the contact information of the service provider.