

**SOUTH ORANGE/MAPLEWOOD COMMUNITY COALITION ON RACE
WEALTH GAP EQUALIZER LOAN (WGEL)
SPECIAL PURPOSE PLAN¹
(updated 2022.02.26)**

PURPOSE: The Wealth Gap Equalizer Loan (WGEL) is an unsecured, low interest loan intended to help close the racial homeownership gap by reducing financial barriers for prospective Black and non-White Hispanic home buyers purchasing in the South Orange/Maplewood NJ community. The loan provides supplemental cash for making home purchase offers, down payments, closing costs, legal fees and other transactions related to home purchase.

BACKGROUND:

(See attached document from US Department of Housing and Urban Development regarding Special Purpose Credit Programs)

https://www.hud.gov/sites/dfiles/GC/documents/Special_Purpose_Credit_Program_OGC_guidance_12-6-2021.pdf

- I. Housing in New Jersey is a Story of Racialized Housing Inequity and Barriers to Property Ownership²**
 - A. New Jersey was one of the first Northern states to restrict the vote to white men. The state also opposed the Emancipation Proclamation and was the *last* Northern state to abolish slavery.
 - B. After the Civil War, New Jersey also refused to ratify the Reconstruction Amendments.
 - C. In the first half of the 20th century, racially restrictive covenants—which prohibit the purchase, lease, or occupation of a property by a certain group of people —prevented Black homeownership across the nation and in New Jersey. These covenants were used by white communities to prevent Black people from living near them.
 - D. Banks and other financial institutions explicitly denied Black World War II veterans to use the homeownership opportunities through the GI Bill, by denying them mortgages.

¹ This plan is created pursuant to the requirements of Consumer Financial Protection Bureau “Special Purpose Credit Program,” 12 CFR § 1002.8(a).

² New Jersey Institute of Social Justice, [Erasing NJ’s Redlines : Reducing the Racial Wealth Gap through Homeownership and Investment in Communities of Color](#) (last visited 1/26/22), pp. 7-10.

E. Redlining dominated the housing market throughout the early to mid-20th century in New Jersey, leaving Black communities shut out of homeownership opportunities. Though redlining has come to a legal end, evidence of unequal lending and investment opportunities continue to pervade New Jersey cities today.

II. New Jersey's RACIAL WEALTH GAP is dramatic and far exceeds the national average.

- a. The average white household in New Jersey has over fifty times the wealth of Black and Hispanic households throughout the state.³
- b. The median household net worth for New Jersey's white families is \$352,000—the highest in the nation—but for New Jersey's Black and Hispanic families it is just \$6,100 and \$7,300, respectively.⁴
- c. This disparity pales in comparison to the national reality. Nationwide, the net worth of white households is \$141,825 whereas the net worth of households of color, Black and Hispanic households is only \$25,410, \$ 12,470 and \$ 20,479, respectively.
- d. Almost 40% of households of color in New Jersey - and 44.7% Black and 60.1% Hispanic households - do not have sufficient liquid assets to subsist at the poverty level for three months in the absence of income. Less than 19% of white households report the same.⁵

³ New Jersey Institute of Social Justice website, *US Has a Racial Wealth Gap Problem, New Jersey has a Disaster* (last visited November 9, 2020), https://www.njisi.org/economic_justice. Nationwide, the net worth of households of color, Black and Hispanic households (\$25,410, \$ 12,470 and \$ 20,479, respectively) also pale in comparison to white households average net worth of \$141,825. Prosperity Now, <https://scorecard.prosperitynow.org/reports#report-data-table>, select Net Worth by Race. See also Appendix A (Data Table of Homeownership, Liquid Assets, Net Worth)

⁴ New Jersey Institute of Social Justice, *Erasing NJ's Redlines : Reducing the Racial Wealth Gap through Homeownership and Investment in Communities of Color* (last visited November 9, 2020), fn. 25, 26.

⁵ <https://scorecard.prosperitynow.org/data-by-location#state/nj>, select Savings & Asset, Liquid Asset Poverty Rate. See also, Appendix B.

- e. This disparity is more extreme here in Essex County, where fewer than 20% of white households lack sufficient liquid assets to subsist at the poverty level for three months in the absence of income but over 50% of households of color do, including 55.2% of Black households and 58% of Hispanic households.⁶

III. HOMEOWNERSHIP is highly beneficial to a household’s ability to make financial gains and build generational wealth.⁷

- A. The average U.S. homeowner has household wealth of \$231,400, while the average renter has household wealth of only \$5,200.⁸
- B. Home equity is the largest component of net worth (excluding pensions and Social Security) and is particularly important for minority borrowers.⁹

IV. The HOMEOWNERSHIP GAP between white and people of color, particularly Black and Hispanic households, is greater today than it was before the passage of the Fair Housing Act over fifty years ago.¹⁰

- A. While 72.1% of white households in this country own their homes, only 46.5% of households of color do, and only 41.4% Black households and 47.4% Hispanic households.¹¹
- B. New Jersey’s racial homeownership gap is more pronounced than the national average. In our state, compared to only 41% of Black households,

⁶ <https://scorecard.prosperitynow.org/reports#report-local-outcome>, select Essex County.

⁷ Laurie Goodman et al., Urb. Inst., [Homeownership is Still Financially Better Than Renting](#) (2018); Laurie Goodman et al., Homeownership and the American Dream, *Journal of Economic Perspectives* 32(1) (Winter 2018), pp. 31-58.

⁸ See id.; Bricker, Jesse, et. al., [“Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances”](#), *Federal Reserve Bulletin*, Vol. 103, No. 3 (September 2017), located at

⁹ See id. Poterba, James, Steven Venti, and David Wise. 2011. “The Composition and Drawdown of Wealth in Retirement.” *Journal of Economic Perspectives* 25(4): 95–118.

¹⁰ Id. See also Jung Hyun Choi et al., [Explaining the Black-White Homeownership Gap: A Closer Look at Disparities Across Local Markets](#) 1 (2019); Jung Hyun Choi et. al., Urban Institute, [Breaking Down Black White Homeownership Gap](#) (February 21, 2020).

¹¹ <https://scorecard.prosperitynow.org/data-by-issue#housing/outcome/homeownership-rate>.

36.9% Hispanic households and 42.4% of households of color, compared with 76.9% of white households.¹²

- C. Most severe is the racial homeownership gap here in Essex County, where only 27.14% of Black households, 30.27 % Hispanic households and 31.17 % of households of color own their homes, compared to where 68.7% of white households.

LOAN TERMS

Special Purpose Loans up to \$7,500 will be issued upon the written recommendation of the WGEL Review Committee for each loan.

- Up to \$7,500 loan
- Up to 50% loan forgiveness (\$3,750) for purchases in South Orange stipulated on a 5-year occupancy requirement¹³
- Interest Free, Unsecured Loan
- 5-year Repayment with no early penalty
- Non-transferable

LOAN ELIGIBILITY

Consideration for WGEL up to \$7,500 will be given to any applicant who meets the following criteria:

- Black or non-White Hispanic Buyer
- First-Time Homebuyer
- Mortgage Pre-Approval Letter
- Purchasing a South Orange/Maplewood Property as a primary residence
- Graduate of a HUD-approved First-Time Homebuyer Program

APPLICATION PROCESS

The application process is designed to make funds available quickly to qualified buyers. The Community Coalition on Race Residential Committee and staff will use a standardized process to recommend loan approval or denial for amounts up to \$7,500, pending availability of funds in the restricted loan account. The target for completing the loan approval process is 7 days or less. After all required documents are reviewed and verified, the applicant will be notified of approval or denial. Application documents required include, but are not limited, to the following:¹⁴

¹² <https://scorecard.prosperitynow.org/data-by-location#state/nj>, select Homeownership.

¹³ Pursuant to an agreement with South Orange Village, to make use of special funds derived from developer fees paid to the Village to address affordable housing needs.

¹⁴ Additional documentation may be requested, if needed

- WGEL Application
- Mortgage Pre-Approval Letter
- Completed Mortgage Application (1003 Form)
- First-Time Homebuyer Program Certificate
- Homebuyer Pre-Purchase Budget Worksheet ¹⁵

ADMINISTRATION AND ACCOUNTING PROCESS

A Community Coalition on Race Staff member will administer the Special Purpose WGEL Program by reviewing payment data and investigating any irregularities for individual loans and then consolidating all loan related data monthly. The Community Coalition Program Director will provide a Quarterly WGEL Report to the Residential Committee and to the Community Coalition on Race Executive Committee. Accounting elements will include the number of loans extended, the balance for each loan, and the balance remaining in the overall Coalition Restricted Loan Account.

EVALUATION AND TIMING

WGEL will be offered as a 6 to 12 month long pilot program starting 1st quarter of 2022. At the end of that period, the results will be evaluated for promotion effectiveness, the number of applications submitted, the number of loans actually extended, and satisfaction levels among the target population. If the WGEL Program is adopted on a non-pilot basis, the status of the special purpose condition will be re-evaluated every three years.

¹⁵ The Pre-Purchase Budget Worksheet is an output of the First Time Home Buyer Program