Understanding redlining

Redlining is a term used for an illegal practice where people living in a certain area or neighborhood are not given the same access to loans and other credit services as people in other areas or neighborhoods on the basis of race, color, national origin, or some other prohibited reason, regardless of their ability to repay their loan.

Redlining makes it harder for people in those neighborhoods that are redlined to buy homes. Although redlining continues to affect neighborhoods today, there are consumer protections in place to prevent the practice.

What is redlining?

Redlining began in the 1930s, during a period when the federal government was trying to encourage people to buy homes to help the U.S. economy recover from the Great Depression. The government offered incentives like low interest rates, meaning it cost less for people to borrow money to purchase their homes.

A government manual on home loans considered race and ethnicity when judging whether to approve mortgages and advised separating racial groups. To indicate whether they believed people who wanted to borrow money for homes would be able to repay their loans, federal institutions like the Home Owner's Loan Corporation (HOLC) and Federal Housing Authority (FHA) developed maps like the one on page 4. They used letters and colors on the maps to show which areas they believed were the best for lenders and which areas were the riskiest:

- **Grade A - green** represented areas that were considered the best for lenders. These neighborhoods were almost always populated by White households, most of which included members of high-paying professions, like business owners.
- **Grade B - blue** represented the areas that were considered acceptable or even good. The people who lived in these neighborhoods were usually White and tended to have higher-paying jobs, like doctors or other skilled professionals.
- **Grade C - yellow** represented areas that were considered to be in decline. White people in working-class professions, like plumbers or mechanics, often lived in these neighborhoods. Immigrants, especially from southern or eastern Europe, Asia, or Mexico, also lived in these areas.

- **Grade D - red** represented areas that were considered to be hazardous for lenders. The government almost always graded an area "D" or red if any Black residents lived there. Large immigrant populations were considered unfavorable for lenders, and the government might grade an area D or red if White people with lower-paying jobs, often requiring manual labor, or who were unemployed also lived there.

Although people seeking to buy homes in neighborhoods shaded in red often did not have trouble paying their mortgages, they faced barriers when trying to get loans. For instance, the HOLC charged higher interest rates for mortgages in Grade D areas, meaning homes in those areas cost more to buy. These ratings systems were then used by lenders across the country, many of whom refused to provide mortgages for houses in D-rated or red areas even if the borrower had the ability to repay the loan. This is where the term "redlining" originated.

At the same time, some communities in all-White neighborhoods had rules in place that made it difficult for Black and immigrant families to buy homes in those communities. For instance, groups known as homeowners' associations developed policies that prevented selling or renting homes to people of color and immigrants. Some communities also wrote requirements into property deeds — the documents that give a person ownership rights to a property — that discriminated against people of color or other groups. These requirements, or covenants, said that owners could not sell their homes to people who were Black, Jewish, Chinese, Japanese, or from other groups of people who were discriminated against. Because of these covenants, homeowners who sold their properties to a restricted group risked having to give up profits from the sale and buyers risked being forced out of their homes. Together, these contributed to the racial and economic segregation of neighborhoods and also prevented Black and immigrant individuals and families from purchasing homes.

Preventing redlining and lending discrimination today

Since 1968, the Fair Housing Act (FHA) has made it illegal for lenders to discriminate against home buyers based on race, color, national origin, religion, sex, family status, or disability. The FHA prohibits many types of housing discrimination including:

- Refusing to provide someone a loan based on race, color, or other protected characteristics.

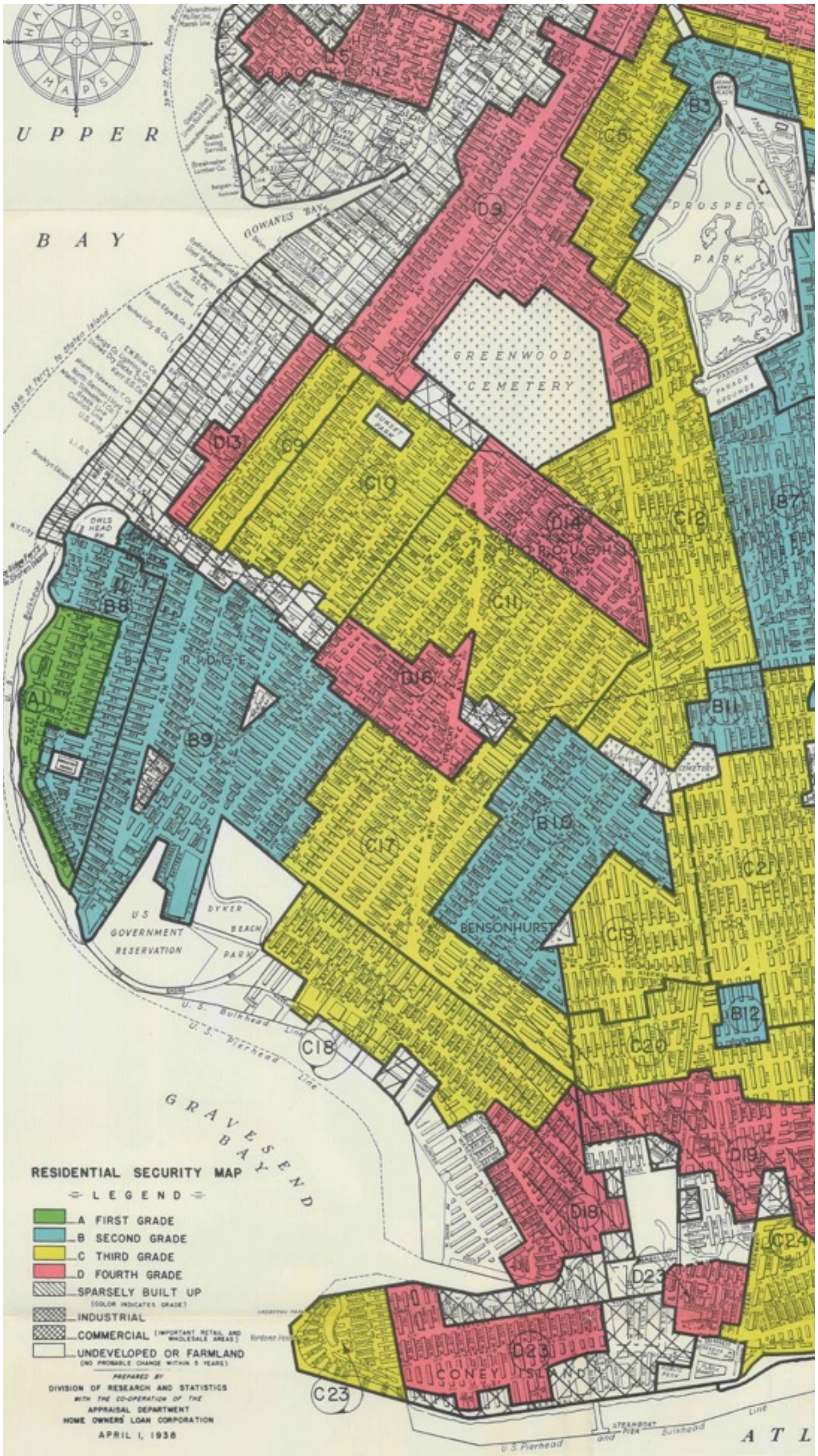
- Providing loans with higher interest rates or fees because of a person's race, color, or other protected characteristics.
- Recommending a bad mortgage loan product because of a person's race, color, or other protected characteristics.
- Appraising, or placing a value on, a property at an amount that is lower than it would be otherwise because of a person's race, color, or other protected characteristics.

The Equal Credit Opportunity Act (ECOA) provides additional protections to people who are seeking credit, including mortgages. Under the ECOA, lenders may not:

- Refuse to provide a mortgage or require higher interest rates or fees because of the race or ethnicity of people who live in the neighborhood where you wish to buy a home.
- Refuse to offer credit because you receive public assistance.
- Consider whether or not you have children when deciding to provide credit.

People who believe their rights under the FHA or the ECOA have been violated have multiple options:

- Tell your lender you believe they are engaged in discriminatory practices. They may be willing to reevaluate your loan request.
- Check with your state Attorney General's office to see if the lender violated any state laws related to fair housing and/or credit.
- Make a report to the appropriate federal agency. You can report suspected violations of the Fair Housing Act to the U.S. Department of Housing and Urban Development at https://www.hud.gov/program_offices/fair_housing_equal_opp/online-complaint. You can report suspected violations of the ECOA to the Consumer Financial Protection Bureau at https://www.consumerfinance.gov/complaint/.



Residential Security Map of Brooklyn, NY, April 1, 1938[1]

1. Robert K. Nelson, LaDale Winling, Richard Marciano, Nathan Connolly, et al., "Mapping Inequality," American Panorama, ed. Robert K. Nelson and Edward L. Ayers, accessed July 20, 2021, https://dsl.richmond.edu/panorama/redlining/#loc=11/40.654/-74.106&city=brooklyn-ny.