

The Effects of Redlining on Racial Minorities

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ABSTRACT

Redlining is a racist practice of refusing loans to racial minorities that took a long time to abolish. It got its name from the Home Owner Loan Corporation's practice of shading risky neighborhoods red. This paper seeks to integrate various sources to view the effects of redlining. Its effects on minorities have led to a wealth disparity, an education inequality, and worse health overall in redlined neighborhoods.

Introduction

Redlining is the term used to describe lenders denying people access to credit because of where they live. It got its name from the Home Owners Loan Corporation (HOLC) who used to shade neighborhoods that were riskier, red. It was historically used to racially discriminate against minorities by denying them access to loans. The practice is formally defined as "a form of illegal disparate treatment whereby a lender provides unequal access to credit because of the race, color, national origin, or other prohibited characteristics of the residents of the area in which the credit seeker" (Rose, 2023). Through the Federal Housing Administration (FHA), the government would sponsor redlining from 1934 to 1968 when the Fair Housing Act was put in place, banning racial discrimination in real estate, including redlining. Despite the Fair Housing Act, many lenders were still practicing redlining, and the government passed the Community Reinvestment Act in 1978 which cracked down on redlining and eventually eliminated it (Rose, 2023). Despite the practice being outlawed, the effects of redlining are still around to this day, as previously redlined neighborhoods are still racially inequal. This article aims to synthesize various sources to produce a list of redlining's detrimental effects.

Effects on Wealth

Due to redlining, many racial minorities have trouble building wealth, and eventually escaping their economic situation. Since redlining prevented minorities from taking loans, it made it difficult for them to get approved for mortgages and buy homes. This led to economic disparity as white residents were able to build home equity and pass it down, but nonwhite residents were unable to even buy a house (Lathan, 2023). In fact, in 1990 "redlined" neighborhoods had 5% lower house prices than other adjacent neighborhoods. Appel & Nickerson credit this fact to fewer owner-occupied homes and more vacant structures. The loss of property value corresponds to a loss of \$7,500 per household (Appel & Nickerson, 2016).

Also, in the study it was proved that the effects of redlining are more pronounced in cities with higher demand for housing. Using state-level home price growth, Appel & Nickerson were able to find that point estimates for cities with high demand from 1940 to 1960 were almost double than that of cities with low demand, but from 1960 to 1990, point estimates for high demand cities were half of lower demand cities (Appel & Nickerson, 2016).

Another reason for the economic disparity between whites and nonwhites would be the alternatives minorities would have to go to in order to find housing. Many of them were forced to take riskier loans, which they would have trouble paying off and would harm their credit. Their only other option was to rent houses and apartments. Unlike today, renting harmed credit scores meaning they were unable to afford mortgages or other loans, which started the

cycle again leading to generational poverty. It got even worse, as redlined neighborhoods were eventually gentrified due to the “rent gap theory.” This theory made it so that when a building’s current rent dropped below its potential value it would create a deficit known as a rent gap. These rent gaps led to many renters getting evicted to another redlined area, to make buildings more profitable (Brown, 2023).

Effects on Education

While the inability to build wealth is a big detriment, it led to unequal education opportunities. Redlining helped determine where people could live, thereby determining what public schools they could go to. This correlation between housing and schooling made it so that opportunities in life were determined by housing. A house’s property value could be increased by up to 20% if placed on the favorable side of a school district line (Burke & Schwalbach, 2021). Speaking of school district lines, “educational redlining” persists to the 21st century due to school district lines and attendance zone boundary lines. School district lines create a boundary containing all public schools together. Attendance zone boundary lines assigned students to public schools depending on where they lived. These boundaries were gerrymandered to keep races separate despite outlawing racial segregation at the time (Burke & Schwalbach, 2021).

The racial segregation present in the school system led to disparate funding in public schools. A public school’s funding comes from federal revenues, state revenues, and local revenues. Public schools usually receive 8% funding from federal sources, 47% from state sources, and 45% from local sources. Public schools in redlined areas generally receive half the funding of non-redlined communities (Frohberg, 2023). The reason being local funding, and where it comes from. Local funding comes from property taxes, which in redlined communities is typically low due to low home value. Funding from federal and state sources help, but non-local sources of funding do little to help. The lack of funding makes it harder for redlined schools to pay teacher salaries, afford new programs, and obtain new resources, such as textbooks (Frohberg, 2023).

Effects on Health

The most pressing impact of redlining is the detrimental effect on residents’ health. Dr. David J.X. Gonzalez and his team found that redlined neighborhoods lived nearby twice the density of oil and gas wells than those that lived in non-redlined neighborhoods. Gonzalez also found that living nearby oil and gas wells could result in cardiovascular disease, impaired lungs, anxiety, depression, and preterm birth. According to Gonzalez 60% of redlined neighborhoods are unequally exposed to greater levels of air pollution, despite improvements in air quality across the country (Lathan, 2023). Urban greenspace can help improve well-being; however redlined neighborhoods are less likely to have access to such greenspaces. From 2001 to 2011, green areas have decreased and there were also less of it to begin with. In a 2021 case study, scientists found that in Milwaukee County, historical redlining contributed to current lending discrimination and to poor physical and mental health (Lynch et al., 2021).

Conclusion

Despite redlining being outlawed for 50+ years, its effects can still be felt to this day. It creates a wealth inequality between races, by creating lower house prices and contributing to generational poverty. As a result of the wealth difference, a disparity between education opportunities and school funding have arisen. The creation of impoverished neighborhoods has led to worse neighborhood health. All in all, redlining serves as one of the most long-lasting and insidious forms of racism ever created.

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