

HISPANIC HOMEOWNERSHIP

The Key to America's
Housing and Economic
Renewal

HISPANIC
HOMEOWNERSHIP:

The Key to America's
Housing and Economic
Renewal

By Alejandro Becerra

BARCLAY BRYAN PRESS
WASHINGTON

Barclay Bryan Press
Washington, DC

www.barclaybryan.com

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ISBN

The objective of national housing policy shall be to reaffirm the long-established commitment to decent, safe, and sanitary housing for every American by strengthening a nationwide partnership of public and private institutions able . . . to provide every American community with a reliable supply of mortgage finance at the lowest possible interest rates...

*National Housing Act of 1934
42 U.S.C. Section 12702*

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Foreword

The economic prosperity and social cohesion of the United States will be greatly influenced over the next several decades by the movement of America's Latino population into the middle class. The nation's Latino population is of such dimensions and growing at such a rate that the degree of its educational, labor force, and economic progress will either impede overall national progress or accelerate it. A strong surge of Latinos into the middle class would constitute a stable foundation under the nation's social structure for the future.

There is clear historical evidence that the workforce productivity and consumer strength of the nation's middle class have been the underpinnings of the prosperity which the United States enjoyed in the post-war period and into the first decade of the 21st century. With Latinos growing to about 25% of the population over the next 45 years and constituting almost one-half of the overall population growth over that period, it is difficult to construct a scenario for a durable American middle class without a strategy for making Latinos an integral part of it.

The rapid growth and scale of the American post-war middle class was supported by national policies such as improving access to higher education through the G.I. Bill, increasing wages through the minimum wage and protection of workers' rights, and prominently by enhancing homeownership. Among the policies that strengthened homeownership are FHA and Veterans Administration Mortgage Insurance, homeowner tax deductions, secondary market and other financial innovations, and governmental programs to spur housing production. The result has been a fluid pathway to the middle class via homeownership for millions of Americans.

Today homeownership is recognized as the principal economic mechanism for families to begin the accumulation of the assets which constitute their wealth. For most American families, the equity they amass through homeownership is the principal basis of their net worth. It should be abundantly clear that if this process of asset accumulation, growing a middle class, and providing the underpinning of stability for the nation is to be sustained, it will require a national commitment of access to homeownership for the most rapidly growing population segment - the nation's Latinos.

Currently the homeownership rate for Hispanic households is about 49%, in contrast to the national rate of 68% and the White non-Hispanic rate of 75%. The Latino rate grew steadily during the robust national economic expansion of the last decade from roughly 42% to its present 49%. Unfortunately, this rate is still fully 19 percentage points below the national rate and 26 percentage points below the White non-Hispanic rate. Some of the difference may be explained by the comparatively shorter tenure in the United States of the substantial number of Latinos who are immigrants. It stands to reason that immigrant Latinos who have had fewer years to earn wages, to accumulate savings, or to establish the financial preconditions for home buying would contribute to the lower Hispanic homeownership level. However, because the homeownership rate of native-born Latinos is about 15 points under the national average, it is clear that in addition to length of tenure in the United States, other variables such as income, younger age profile, and place of residence are at work.

It is to these causes of a lower Latino homeownership rate that Alejandro Becerra devotes focused attention. More importantly, it is his review of the most effective policies and ideas to eliminate the differentials that creates the potential for meaningful action by decision-makers in the public and private sectors. Becerra has meticulously researched the best practices of housing officials and advocates working to increase Latino homeownership. He has presented in one place the problems, the gaps, the proven strategies, and the most promising approaches for closing those gaps.

As a result, *Hispanic Homeownership: The Key to America's Housing and Economic Renewal* is the definitive source document for persons interested in the direction and potential of Hispanic homeownership and for those committed to expanding and strengthening it. This study is of immense importance. As a study of housing policies it is a clear exposition and a call to action. As a preview of national economic and social progress it is a first look at the next chapter in the great American historical narrative.

Henry G. Cisneros
Executive Chairman, City View

Preface

In spite of the nation's housing debacle, homeownership remains the cornerstone of wealth for a majority of Americans, including Hispanics. At the same time, the vigorous work ethic and burgeoning purchasing power of Hispanics and other minorities have the potential of vastly stimulating America's economic growth. I strongly believe that a new generation of homebuyers, including Hispanics and immigrants, will play a pivotal role in reinvigorating America's housing market and enable it to generate, once again, a new era of sustained progress and prosperity.

With the economy struggling to recover from the financial crisis that has caused the loss of millions of jobs and homes, the road ahead will be daunting. That is why *Hispanic Homeownership: The Key to America's Housing and Economic Renewal* lays out both the challenges and risks that lie ahead for all prospective homeowners as well as the reasons why the Hispanic community alone represents such a strong and vital homeownership market.

The work ethic of Latinos is fast becoming legendary – hard-working, often holding more than one job or working long hours, with an impressive record of low-turnover and -absenteeism. Over the past decade, their labor and their earnings, especially in the construction sector, contributed enormously to the nation's housing boom and economic prosperity.

Importantly, the housing industry makes up about 10 percent of the nation's gross domestic product and was responsible for over 75 percent of all job growth from 2004 through 2007. To cite just one example of the important contributions Hispanics can make in sparking a recovery in housing, in 2006 Hispanic workers landed two out of every three new construction jobs, or nearly 400,000 jobs – even as the housing market was suffering a severe slump. Today, they represent nearly one-fourth of the entire construction industry labor force.

Hispanics are playing a pivotal role in the growth of housing and the general economy as a result of their expanding population growth, rapidly growing purchasing power, and significant employment and entrepreneurial contributions. In fact, over the past two decades the increasing capacity of Hispanics to achieve homeownership has contributed substantially to the housing boom in the suburbs, prevented a decline in urban housing markets, and helped stabilize housing markets in many declining small towns and rural areas.

Hispanic Homeownership: The Key to America's Housing and Economic Renewal also describes the various initiatives the housing industry must undertake in order to tap this rapidly-growing market properly and effectively right now. At stake is the sustainability of the housing industry, a vital sector of the nation's economy that epitomizes the awe-inspiring essence of the American dream – economic security and independence, and the means to an end we all cherish – a home we can call our own.

Alejandro Becerra
Silver Spring, Maryland 2009

AS WE REPAIR FROM THE HOUSING CRISIS AND SUB-PRIME excess, we seem to have forgotten that the minority community and Hispanic borrower, in particular, will be essential to our national recovery and to the stabilization of housing markets. The Hispanic market was important before the market breakdown and will continue to be important in the future.

Craig Nickerson
President, National Community Stabilization Trust

LATINOS, BY VIRTUE OF THEIR SHEER NUMBERS, HAVE the potential to reinvigorate the housing economy, and it is our goal to ensure that this new generation has the benefit of every possible advantage that enables them to partake of the American Dream. Hispanics will represent 40 percent of first-time home buyers in the next decade, thereby making first-time home buying programs imminently critical to the country's housing growth.

Rebecca Gallardo Serrano
Chairperson, NAHREP, 2008

Executive Summary

Purpose

Hispanic Homeownership: The Key to America's Housing and Economic Renewal explores the opportunities and obstacles Hispanics will find in 21st century America's housing markets. It highlights initiatives the housing industry and government have undertaken, including new legislation and government policies that will impact Hispanic homeownership significantly.

Just as important, given America's housing crisis, this new book presents in one place the most significant points regarding the direction and potential of Latino homeownership. As former HUD Secretary Cisneros points out, the book describes not only the major homeownership barriers and issues confronting Hispanics, but also the most effective policies, best-proven strategies, and most promising approaches to help thousands of Hispanics achieve and retain their dream of homeownership.

Hispanic Homeownership: The Key to America's Housing and Economic Renewal was written specifically for those proponents of homeownership who want to tap the tremendous potential that the rapidly increasing Hispanic population and its vast purchasing power represent for the housing industry and the national economy. It details the various reasons why first-time homebuyers, especially Latinos, can well provide the stimulus needed to revitalize America's housing sector, demonstrating, in effect, that Latinos will be among the primary home buyers of the future. As an aging homeownership population begins to compel imminent replacement, recent immigrants and young minorities represent America's new demographic majority of homeowners in the 21st Century.

A soft, weakened market offering near-record-low mortgage rates and rock-bottom home prices should enable more Latinos and others to buy a home in the near future. In addition, the built-up of demand for homeownership caused by the recent tightening of credit and the potential curtailment of large-scale predatory loan practices strongly suggest that in due course an increasingly large number of Latinos and other minorities will be able to obtain a safe and appropriately underwritten mortgage loan at a fair and reasonable price. The book is therefore intended to help the housing industry, lending institutions, housing advocates, and elected officials learn more about:

- Key characteristics of the Hispanic population and long-term trends in Hispanic homeownership rates, in comparison to other population groups.
- The growing number of mortgage loan products and financial assistance programs that are helping Latinos and others achieve homeownership throughout the country.
- Important issues impacting homeownership such as predatory lending, defective loan products, discrimination, stringent lending standards, and the general state of the economy.
- The obstacles Hispanics and others confront in their quest to achieve homeownership, including overcoming recent setbacks in income, employment, and homeownership.
- The homes and communities that can be designed and built to attract and support the lifestyles and cultural needs of Latinos.
- The marketing, outreach, and educational strategies that work best in reaching Latinos.
- New foreclosure-prevention and loss-mitigation initiatives intended to ensure that financially stressed borrowers, including Hispanics, can preserve their homes.
- The homeownership best practices and government policies -- including efforts to stimulate mortgage lending, encourage home buying, and lower mortgage interest rates -- that will make it possible for an increasing number of Americans to successfully buy, finance, and own a home the right way right now.

Finally, the book is particularly intended for the communications and marketing segments of the housing industry and the media. There is an overarching need for these entities to acquire an accurate and full understanding of the dynamics of housing that directly affect the success of homeownership among all Americans, including Hispanics.

For example, in June 2008, *The Washington Post* published "The Bubble," a series of articles on the sub-prime crisis. The series suggested that the crisis had resulted largely because sub-prime loans had been made to

low-income families and immigrants (most of whom are Hispanic) with “less-than-stellar” credit. In fact, one-third to one-half of all Hispanics who got sub-prime loans could have qualified for safe, lower-cost conventional loans that would have provided the basis for successful homeownership. *The Washington Post* had simply failed to report that unethical sub-prime lenders had long been targeting, and continue to target, customers who can qualify for less expensive “prime” loans but are not aware of it.

For years, unscrupulous lenders had lured borrowers with low “teaser” rates and cajoled them into higher-cost loans. In order to charge higher fees, these lenders often made thousands of improper loans by intentionally failing to verify or require income and savings information. Incredibly, by 2007, 60% of all sub-prime loans required little or no documentation. To crack down on such unsound and irresponsible lending, in 2008 Federal Reserve Chairman Ben Bernanke announced the approval of new rules that prohibit predatory lending practices. He stressed that unfair or deceptive acts and practices by lenders had resulted in the extension of many high-cost loans that were inappropriate for, or which misled, thousands of borrowers.

As late as August 7, 2009, *The Washington Post* continued to claim that the homeownership gains in recent years primarily reflected the extension of credit to people who could not afford it. In an editorial entitled “Fixing Fannie Mae,” the *Post* also implied that it would be all right for the national rate of homeownership to go back to 1985 levels “when American society appeared pretty stable.” In 1985, the rate of Hispanic homeownership was only 41.1% and that of African-Americans was 44.4%. It is hard to believe that *The Washington Post* did not take this into account when it accepted this level of stability and progress.

Regrettably, the unsubstantiated claims that recent homeownership gains were largely the result of extending credit to people who could not afford it and that promoting homeownership for low-income minorities had caused the housing crisis continue to hamper a concerted national effort to resolve it.

Ideally, the media must be responsible for reporting all the news that’s “fit to print” fairly and accurately, with the ultimate objective of best serving the public interest. For example, the media not only must aptly investigate the individuals, institutions, or policies that caused the sub-prime crisis but also must publicize how the lending industry can now apply prudent credit standards effectively and still make homeownership attainable for millions of Americans. Sustainable homeownership can be achieved by making loans the right way, especially through homebuyer education and

counseling, appropriate loan terms and conditions, affordable down-payments, and financial assistance for first-time homebuyers and others.

Unfortunately, *The Washington Post* series created the erroneous impression that many borrowers did not deserve help, when in reality many of them, based on their incomes and creditworthiness, qualified for lower-interest loans. In addition, at least one reader of the *Post* series suggested that many of these borrowers could achieve sustainable homeownership if they were provided with safe and subsidized, below-market interest rate loans. The irony, however, is that such homeownership assistance programs have long been available throughout the country.

In contrast to the media, major lenders are already fully aware of the tremendous market potential that Hispanics represent. In April 2008, for example, Wells Fargo conducted a videoconference that was shown in 50 theaters across the country and reached 12,000 members of the real estate industry. Wells Fargo's message was straightforward and succinct: Rather than retract from making loans to minorities, including Hispanics, the lending industry needed right then to begin reaching them successfully and with appropriate loans.

Major Findings

Hispanic Homeownership: The Key to America's Housing and Economic Renewal confirms the existing research on Hispanic homeownership, which shows that Latinos display a strong desire to own a home and are increasingly making gains in education and income that will enable thousands of them to become homeowners. According to a survey conducted in 2007 by the Tomas Rivera Institute, 72% of Latino non-homeowners have considered buying a home.

The book also reaffirms earlier findings which reveal that Latinos aspire to own homes in safe neighborhoods that are decent, appealing, and affordable. The findings demonstrate how a combination of positive trends, including income gains by Hispanics, low interest rates, and an increasingly responsive housing industry have led to a rapid increase in the rate of Hispanic homeownership – from 42% in 1994 to 49% in 2008, an increase of 17%, or more than twice the rate of growth of non-Hispanic White households (7%) during the same time period.

Importantly, *Hispanic Homeownership: The Key to America's Housing and Economic Renewal* highlights recent data that confirm the strong capacity of Hispanics to purchase and finance a home. First, Hispanics are now the largest minority group in the U.S., and represent an increasing portion

of the age group involved in most home sales – 26 to 46 years of age. In the next few years, the Hispanic community is expected to continue to grow at a rate three times faster than the general population, and to account for well over 30% of total household growth in the country.

Latinos are also moving throughout the country in search of better jobs and affordable housing opportunities. From 1995 to 2005, Hispanics accounted for 90% of all household growth in Hawaii, 46% in Rhode Island, 40% in New York, 36% in Illinois, and 25% in North Carolina.

In terms of income gains, from 1980 to 2000 the number of Hispanic families with annual incomes over \$40,000 increased by 80% – three times the rate of increase of the overall population. According to the National Association of Hispanic Real Estate Professionals (NAHREP), nearly 4 million Hispanics, or about 40% of the Hispanic population, now earn an annual income above \$40,000. Furthermore, over the past decade Hispanic households who earn over \$100,000 per year grew by 125% to 3.7 million, representing a total net worth of \$500 billion. More than 10% of all Hispanic households now earn more than \$100,000 a year.

Census data also show that between 1994 and 2007, median Hispanic household income rose 23%, from \$31,500 a year to \$38,700 a year. Hispanics are expected to continue growing in affluence at a much faster rate than the general population.

The economic progress of Hispanics has been accelerated by gains in education. From 1994 to 2005, the percentage of 18- to 24-year-old Hispanics who graduated from high school or obtained a GED rose from 56% to 66%. Nearly 25% of these young Hispanics are now enrolled in college, up from 19% in 1994. In addition, Hispanics are moving quickly into management, professional, and other white-collar occupations.

In 2007, Hispanic purchasing power surged to \$863 billion. Due largely to the younger age profile of Hispanics and the continued growth in their population and purchasing power, NAHREP projects that from 2002 to 2012, 40% of first-time homebuyers in the U.S. will be Hispanic.

Finally, prior to the nation's financial crisis, the Tomas Rivera Policy Institute had projected that nearly 1.5 million Latino households would buy homes by 2010. It estimated that another 700,000 Latino families would be able to buy homes if the housing industry offered them adequate bilingual outreach, counseling, and access to appropriate loan products. These 2.2 million Hispanic households represented an additional \$500 billion in home sales, \$450 billion in mortgage sales, and \$8 billion in gross income for the housing industry.

Conclusions

The surge of Latinos into the middle class, which is essential to bringing about economic prosperity and social cohesion for all Americans, cannot occur without the housing industry's strong leadership. The promise of a better future for Latinos will not be realized without a more focused commitment from the public and private sectors. The housing industry itself must be fully aware that Hispanics will be fueling the first-time homeownership market over the next two decades. As interest rate changes and problems with sub-prime loans continue to shift industry's focus away from refinancing loans, the significance of gaining access to financially capable and qualified first-time homebuyers, especially from among the younger and rapidly growing Latino population, becomes even greater.

Lenders have vastly improved efficiency and profitability in making loans to Latinos, a market segment which has traditionally been viewed as time-consuming and complex. Lenders have also reduced the average fees and points charged in originating 30-year fixed-rate mortgages by improving and automating underwriting standards, thus making homeownership increasingly affordable. Many of these lenders have also been making community lending, Federal Housing Administration (FHA), and Individual Tax Identification Number (ITIN) loans. Given the current tightening of credit, lenders need to ensure that Latino borrowers continue to have access to these loan products and to benefit from the use of the more culturally appropriate and sound underwriting criteria now available, and that responsible Latino borrowers are able to choose only the most appropriate loans for which they qualify and can afford to pay.

Finally, the housing industry has actively recruited and hired an increasing number of bilingual, highly ethical, and culturally sensitive real estate professionals who are successfully gaining the trust and brand loyalty of Hispanic home buyers. The ultimate achievement of the housing industry in terms of inclusion will be its ability to incorporate minorities, including Hispanics, into board and executive leadership positions.

Obviously, a great potential for Hispanic homeownership exists now that more Hispanics are able to afford homes in areas that also offer better job and income opportunities. Major lenders had, until recently, developed effective credit requirements, become trusted sources of credit, and extended an increased number of loans that are safe, accessible, and affordable. Long before the onslaught of sub-prime lending, such actions had made it possible for thousands of Latinos who had previously been shut out of the market to become homeowners.

It is, however, also plainly evident that many Hispanics continue to face formidable barriers, including renewed lack of trust in financial institutions and misinformation concerning the home buying process. Hispanics whose income and credit standing most likely qualify them for prime loans are particularly concerned about obtaining inappropriate higher-cost loans. Partly because of such concerns and the current tightening of credit, loan applications for home purchases by Hispanics fell 38% from 2006 to 2007.

Faulty provisions in some mortgage loans have served to focus public attention on borrowers who are financially stressed or who have been victimized by a few unscrupulous lenders. Equally important, however, is to recognize the hundreds of thousands of Latino borrowers who have been able to achieve sustainable homeownership and to benefit immeasurably from the accumulation of equity. Although a growing number of foreclosures and a decline in home sales and prices have halted the great housing boom of recent times, the Hispanic rate of homeownership still rose to 50.1% in the third quarter of 2007 – the second time in U.S. history that Census data showed that a majority of Hispanics had achieved homeownership.

Housing advocacy groups are to be commended for continuing to emphasize the challenges and risks facing Hispanics who want to achieve sustainable homeownership. They know that prospective Hispanic homebuyers must still contend with the formidable tasks of first becoming familiar with the appropriate loan products that are available, and then wisely selecting the loans and, if eligible, possible financial assistance that best suits their financial capability.

The housing industry, on the other hand, must equally focus on the vast potential and opportunities that continue to prevail for prospective Hispanic homebuyers even as the housing market continues to experience a severe slump. It must not catch itself accepting what major newspapers such as the *Wall Street Journal* and other mainstream media have reported and implied: that the sub-prime market only catered to “borrowers with weak credit.”

Instead, the housing industry must fully recognize that many Latinos have been offered sub-prime loans not because they have damaged credit but rather because they either lacked a traditional credit history or simply fell victims to unscrupulous lenders who failed to determine or acknowledge their true financial capacity and credit-worthiness. Although such Latino borrowers are likely to be hard-working and highly conscientious, they may still face foreclosure problems because they were given loans with hidden costs and “teaser” rates.

Mortgage lenders today need to know that most Latinos work hard, are highly mobile, and will do everything they can to keep their homes or to become new homeowners. Many of them hold multiple jobs, pool their resources, and are willing to change jobs or careers. They are sometimes willing to leave family members temporarily behind in order to move to areas of the country that offer better jobs and more affordable housing. As the population and purchasing power of Latinos continue to grow, the immediate future of housing in America depends substantially on how well the housing industry responds to their emergent housing needs.

Prospects for the Future

The rate of homeownership for the entire population in the U.S. has drastically declined from the historic high rate of 69% achieved in 2004 to 67.8% in 2008. The rate of homeownership for non-Hispanic Whites has similarly decreased from the high rate of 76% attained in 2004 to 75% in 2008. In particular, the rate of Black homeownership has declined substantially from the high rate of 49.1% reached in 2004 to 47.4% in 2008.

Indeed, the last time the rate of homeownership reached only 67.8% for all US households was eight years ago in 2001. Back then, the rate of homeownership for non-Hispanic Whites stood at 74.3% and that of Hispanics was 47.3%. Since then, the rate of homeownership for all households did not grow at all, remaining at 67.8%, and the rate of homeownership for non-Hispanic Whites barely grew from 74.3% to 75%, or less than one percentage point. On the other hand, during the same time period the rate of Hispanic homeownership grew from 47.3% to 49.2%, an increase of nearly two percentage points -- clearly substantiating the long-term potential of the Hispanic homeownership market, especially when good, safe, and affordable loans are accessible, offered and made.

Looking back, as early as the first quarter of 2005 the rate of Hispanic homeownership had already reached 49.7%, long before the onset of the sub-prime crisis. On an annual basis, it has remained steady at nearly 50% since then.

In 2006, Hispanics took out 692,014 home-purchase loans, far outpacing all minority groups. In contrast, African-Americans, the nation's second largest minority group, took out only 448,082 home-purchase loans during the same time period. Accordingly, unless Hispanics are unduly affected by the sub-prime crisis, the gap in the rate of homeownership between Hispanics (49.7%) and that of the U.S. total population (68.3%) may well continue to narrow. Prior to the sub-prime crisis, about 2.2 million Hispanics

were projected to buy homes by 2010, when their rate of homeownership was expected to have exceeded 50%.

Achieving higher levels of Hispanic homeownership, however, requires that mortgage loan interest rates remain historically low, Hispanics continue to make gains in education and income, and the housing industry must assess risk and credit-worthiness effectively by fully and accurately taking into account the financial capacity of Hispanics, especially their instinctive capacity to pool incomes. Favorable trends that should help increase the rate of Hispanic homeownership include:

- **Hispanics are now the largest minority group in the country.**

They account for over 30% of its total household growth, and represent an increasing proportion of the predominant home-buying age group – 26 to 46 years of age. In 2006, the Hispanic population was much younger, with a median age of 27.4, compared with the population as a whole at 36.4. Hispanics are also more likely to be married with children (38%) than non-Hispanics (23%), and thus are strongly motivated to buy a home.

- **Hispanics are continuing to attain steady gains in population, income, education, and business entrepreneurship.**

In 2007, Hispanic purchasing power rose to \$863 billion. Their vigorous work ethic, strong desire to succeed, and larger size of families are accelerating their potential to achieve homeownership. The number of Hispanic-owned businesses reached 3 million in 2008, with business receipts totaling \$389 billion. Finally, growth in the number of Hispanic homeowners has continued to outpace that of Hispanic renters since 2004. Indeed, larger Hispanic households with multiple wage earners are consistently pooling their incomes and other assets in order to make their dreams of buying a home a reality.

- **Hispanics are moving to practically every region in the country, especially to areas with growing Hispanic populations, in search of better job opportunities and affordable housing.**

This trend is particularly true for Hispanics who have lower median household incomes when compared to non-Hispanic Whites, and are beginning to move from high-cost housing markets into localities having historically-high affordable housing.

- **More Hispanic low-to-moderate-income families are now able to afford buying a home.**

Of the total 1.4 million mortgage loans made to Latinos in 2005, about 500,000 loans (or 35%) were made to Latino households with below-median incomes. This substantial number of loans represents a promising market for affordable lower-end home sales, especially if the large number of eligible Latino households takes advantage of current rock-bottom home prices, low interest rates, and the various homeownership assistance programs that are now available throughout the country. These programs feature safeguards that help ensure that Latinos are well-prepared for the responsibilities of homeownership and can obtain only safe, affordable loans.

- **A greater number of Latinos from all income levels can now buy a home, especially in the inner cities, suburbs, and in small towns.**

In particular, homes at the lower end of the market are making homeownership more affordable as these homes continue to experience the greatest decline in prices across the country. As early as April 2007, the Commerce Department was reporting that more than 40% of the new-home sales recorded nationwide were for homes \$200,000 or less.

Over the past two years, larger declines have occurred in the values of lower-priced homes than higher-priced homes in 12 of 17 major Metropolitan Statistical Areas (MSAs). For example, in MSAs such as Los Angeles, the decline in values of lower-priced homes has been at least 18%, whereas that of higher-priced homes has been just over 7%. By March 2009, home prices were making homes more affordable than at any time in the last 40 years, when compared with personal income.

Because more homes are selling at the lower end of the market but taking longer to sell, the housing industry is spending more time now in helping first-time homebuyers benefit from homeownership assistance programs, including a new \$8,000 home buyer tax credit. These programs help cover down-payment and closing costs, and often help lower monthly mortgage costs through subsidized, below-market soft-second mortgage loans.

Importantly, these homeownership programs are helping more first-time homebuyers qualify for loans that are in line with their creditworthiness and financial capacity, offer as much as \$90,000 or more in assistance in high-cost communities, and usually combine local, state, and federal government funds.

- **Hispanics continue to stimulate the housing industry both as construction workers and as purchasers of homes and home improvement products.**

In 2006, Hispanic workers landed two out of every three new construction jobs, or nearly 400,000 jobs – even as the housing market was suffering a year-long slump. Today, they represent nearly one-fourth of the entire construction industry labor force, but are continuing to suffer increased unemployment due to the severity of the housing crisis.

Because of their burgeoning population growth, rapidly growing purchasing power, and significant employment contributions, Hispanics are playing a pivotal role in the growth of housing in the country. Over the past two decades the increasing capacity of Hispanics to achieve homeownership has contributed substantially to the housing boom in the suburbs, prevented a decline in urban housing markets, and helped stabilize housing markets in many declining small towns and rural areas.

- **Low interest rates, government-backed loans, and targeted, non-predatory lending by financial institutions are making homeownership more affordable for Hispanics.**

As of this writing, 30-year fixed mortgage rate loans continue to hover around 5 to 6 percent, Congress has enacted FHA reform legislation as well as new housing legislation to rescue troubled borrowers from losing their homes, and lenders are using targeted loan products to reach Hispanics effectively. Many sellers and builders are offering incentives such as paying mortgage points or fees, or providing a home warranty plan or free moving services. Hispanics are also realizing that the sooner they are able to afford and buy a home, the sooner they can build equity and benefit from mortgage interest deductions.

Several companies have also introduced innovative underwriting systems that enable lenders to assess the credit-worthiness and financial

capacity of all borrowers more accurately. These systems take into account multiple wage earners and documented income from more than one job, and they add weight to on-time payments of rent, phone bills, utilities and other “alternative” credit indicators.

- **Hispanics, like most Americans, are highly motivated to buy a home because they yearn for a place to call “home” and want to leave behind something of value for their children.**

Most Latinos associate owning a home with a strong personal and collective sense of pride, security, independence, and achievement. As prospective homeowners, they envision themselves becoming free of the restrictions and poor living conditions they often associate with rental housing, and see themselves more as masters of their own destinies.

From 2002 to 2007, housing appreciation rates increased astoundingly in five of the most popular places for Hispanic homeownership in the country: 142% in Riverside, CA, 136% in Los Angeles, 133% in Miami, 97% in Phoenix, and 51% in Chicago. As of mid-2007, median home prices were \$397,000 in Riverside, CA, \$384,000 in Miami, \$265,000 in Phoenix, \$283,000 in Chicago, and \$593,000 in Los Angeles.

Overall, the average housing appreciation rate during that five-year period was 83% in the top Hispanic demographic areas. In spite of the housing crisis, homeownership continues to preserve considerable wealth for millions of successful Hispanic homeowners. As of the end of 2008, nearly a majority of Hispanics (49.2%) still owned their homes. Latinos have highly appreciated the equity they have amassed even though they have not traditionally considered such wealth as a primary motive for owning a home.

Recommendations

Hispanic Homeownership: The Key to America’s Housing and Economic Renewal encourages the housing industry to commit itself fully from the top down, to provide Hispanics full access to the safe, targeted, and affordable loan products and homeownership assistance programs that are available nationwide. Overall, the housing industry can help Latinos achieve homeownership by:

(1) Establishing a simpler, more transparent, and easier-to-understand home buying and lending process.

(2) Demonstrating total commitment to streamlining and effectively delivering the entire range of loan products and services it offers.

The housing industry must assertively reach out to ensure that Hispanic borrowers are adequately prepared for homeownership through counseling and given the information they need in order to secure mortgage loans which best suit their financial capacity. To enhance profits and achieve mutually beneficial results with a greater number of borrowers, lenders must specifically ensure that all borrowers have their true credit-worthiness fully taken into account, and are given an equitable opportunity to attain and sustain homeownership by offering them the most appropriate loan products and credit options for which they qualify.

In recent years Hispanics had obtained about 40% of all sub-prime loans. Such a large percentage of sub-prime loans to Hispanics is due, to some extent, to their relatively lower incomes and – quite significantly – to their lack of access to reliable counseling and to traditional 30-year fixed loans and alternative loan products which use the new, more culturally appropriate, automated, and sound underwriting criteria that are available for borrowers with non-traditional credit practices and “thin credit files.”

Such market-proven underwriting criteria are now being applied with increasingly successful results. As Felix DeHerrera, former chairman of NAHREP has stated, “[Mortgage suitability] reforms that protect consumers and strike a balance for practitioners that work with the underserved community are absolutely critical to keeping the door open to homeownership.”

The strong faith that Hispanics have in their own financial ability to become homeowners should result once again in a majority of Hispanics owning a home by the end of this decade. In addition, the housing industry is becoming strongly aware of the tremendous market potential of the Hispanic community, a community that is entrepreneurial, hard-working, and can help once again fuel the American economy.

Finally, Hispanic homeownership rates should continue to grow once housing practitioners from every sphere of influence carry out the public policy recommendations delineated in this book. The recently enacted Housing and Economic Recovery Act of 2008 (HERA) and most recent government actions have already adopted many of these recommendations. Indeed, all of these recommendations were previously formulated in *The Potential of Hispanic Homeownership: Challenges and Opportunities*, an abridged version of this book which was published by NAHREP two years ago and was widely distributed.

Some of these policy recommendations that are now law include the establishment of a national housing trust fund, homeownership tax credits, FHA reform, tax benefits for homeowners who do not itemize on their tax returns, higher loan limits for GSE and FHA loans, revitalizing deteriorated areas directly affected by foreclosures, enhancing mortgage disclosure, and expanded federal housing programs and homebuyer counseling.

Make it Right: Owning a Home the Right Way Right Now

In summary, this primer on Hispanic homeownership seeks to persuade and spur industry leaders, housing advocates, and policy-makers into vigorously carrying out the strategies and “best practices” that will result in the resurgence of housing, the crumbling of homeownership barriers, and the renewed growth of homeownership for all Americans, including Hispanics. The book is particularly intended to show that the time to successfully finance and own a home the right way is right now.

Chapter One Challenges and Opportunities

Immigrants are playing a major role in our economy. There's no question about that.... A lot of immigrant workers, many of them undocumented...are working in various industries, ranging from manufacturing, to agriculture, to leisure and hospitality...construction and other areas. And if they were all to leave immediately, then there would be obviously disruption...and labor shortages in those industries.

Ben Bernanke, Federal Reserve Chairman, February 2007

H*ispanic Homeownership: A Stimulus for America's Housing Renewal* highlights findings that are in the forefront of housing industry interest today: (a) the sudden and explosive growth of sub-prime and non-traditional mortgage loans that has proven to be too costly and damaging for millions of Americans; (b) the critical need to extend appropriate and affordable loan products, home buyer education, and housing counseling to prospective home buyers; (c) the need to adopt homeownership strategies that address the language and cultural differences of Latinos; (d) the application of new alternative credit scoring mechanisms that work successfully for non-traditional borrowers; (e) the movement of an increasing number of well-informed Latinos from high-cost areas to communities across the country that provide better jobs and more affordable housing; and (f) the exceptional growth of the Latino market and its direct relationship to the resurgence of housing in America.



In terms of creating opportunities, the housing industry must continue to establish viable partnerships with other key stakeholders that create sustainable homeownership opportunities for Hispanics, including housing counseling and government housing agencies as well as nonprofit housing and community development organizations.

If the Hispanic homeownership rate is to rise again substantially, such joint efforts must emphasize the effective coordination and layering of resources, the provision of extensive home buyer education and counseling, the expansion of trusted sources of mortgage loan credit, and vastly improved real estate marketing and outreach efforts.

Overcoming Homeownership Barriers: The Challenges

Prospective Latino homebuyers continue to face many barriers and risks: lack of affordable housing; the disproportionate concentration of Latino households in costly housing markets; the lower median household incomes of Latinos; and the unprecedented growth – until most recently – of sub-prime and non-traditional, high-cost mortgage loans.

Some of the alternative or non-traditional loans, such as interest-only loans, have not required borrowers to pay down the principal; similarly, option adjustable-rate mortgage loans (another type of non-traditional loan) have allowed customers to pick their payment amount. Consumers in the recent past had obtained such risky loans because they were offered “teaser” rates and low payments for the first several months, or usually for no more than two or three years. They got a short-term break that helped them qualify on the front end with the hopes that rising home values would help them out later. Some of these consumers, however, were surprised when their payments doubled or tripled as interest rates adjusted or as their mortgage balances expanded because they had not paid any money toward the principal. Once this happened, such consumers ran the risk of seeing their mortgage balance rise, even after years of payment. Ultimately, they ran the risk of foreclosure.¹

Accordingly, one of the outstanding challenges facing housing practitioners today is helping prospective homebuyers make the right choices and obtain the best mortgage loans that are in line with their buying capacity and credit. Fortunately, prospective homebuyers whose incomes qualify them for government financial assistance are in most instances required to receive housing counseling and clear, accurate, and thorough information on the true costs of the mortgage loans they obtain. Borrowers who have received



non-traditional loans such as interest-only loans, however, have not fully understood that such loans only make sense when rising home values mitigate their having to make larger payments later.

Since such borrowers did not fully understand what they were getting into, they risked rushing into obtaining these loans. The terms and conditions of some of these loans, unwittingly or not, placed them at great risk of foreclosure. In touting such loans, unscrupulous lenders or brokers often ad-

vertised “teaser” interest rates, no down-payment or proof of income requirements, minimum low-payment plans, confusing terms, and lured even homebuyers with good credit

into non-prime, high-cost debt. These lenders failed to inform borrowers directly that these loans involved excessive points or fees, were subject to mandatory arbitration, and included abusive prepayment penalties or single-premium credit insurance or debt cancellation insurance. To make matters worse, licensing standards and proactive enforcement regarding abusive loan practices by mortgage originators were sorely lacking.

In the past four years, job losses and a slowing economy have led to thousands of late mortgage payments and foreclosures. In addition, a lack of understanding of how the terms and conditions of these loans affected the capacity of homebuyers to pay for their homes, and a precipitous decline in home values, have accelerated the growth of delinquencies and foreclosures throughout the country. For a long time, housing advocates had pleaded for lenders to create more mortgage loans that included lower down payments and longer repayment terms. Now, they were lamenting that hundreds of thousands of ill-informed and ill-prepared borrowers had been lured instead into obtaining predatory, high-cost loans in their haste to refinance or purchase a home.

Many such loans, which feature looser credit requirements and fluctuating payment plans, were originally intended for borrowers with promising long-term earnings potential or who expected their incomes or home values to increase rapidly. Increasingly, however, these loans were offered to lower-income individuals, especially young and elderly ill-informed borrowers in gentrifying neighborhoods. Unfortunately, thousands of such borrowers received these higher-cost loans because some lenders used “cookie-cutter” industry standards to categorize them, sometimes inaccurately or even intentionally, as “high-risk” borrowers.

Many lenders had long concluded that sub-prime and non-traditional loan products served an important need if used prudently and wisely. Unfortunately, the terms of thousands of these loans caught consumers totally unprepared to handle sudden jumps in their loan payments, and then to face the strong possibility of losing their homes.

Preventing Foreclosures Successfully

Overall, the best way to prevent foreclosure is to provide early, adequate, and thorough homebuyer education and housing counseling. Trusted sources of mortgage loan credit must provide borrowers with the information they need in order to make the right choices in obtaining the types of loans that best suit their needs and financial capabilities.

From the very beginning, borrowers must be encouraged and taught to understand fully the terms of their loans. If this prerequisite has not been adequately addressed, the housing industry must extend a helping hand and serve as trusted advisors to financially-stressed homeowners who end up in danger of losing their homes.

Such trusted advisors, including members of NAHREP, are now helping financially-stressed borrowers across the country by informing them about available options, guiding them to negotiate ways to avoid foreclosure with their lenders, and often connecting them with nonprofit housing counselors.² They are working closely with lenders to help these borrowers keep their homes by modifying certain terms of their loans, including lowering monthly payments for a period, deferring unpaid principal and interest, or changing the interest rate.

Other prudent workout arrangements include (a) repayment plans in which unpaid balances are reduced and paid over time through small, regular additions to borrowers' monthly payments, and (b) forbearance agreements whereby principal and interest payments are reduced or even suspended for a period of time, enabling borrowers to get their finances under control. HUD's FHA, for example, even allows money to be advanced interest-free on behalf of delinquent homeowners to bring their loans current, up to a maximum of 12 months' worth of principal, interest, taxes and insurance.³ In September 2007, FHA instituted FHA Secure, a refinancing option that gives homeowners with adjustable rate mortgages, current or delinquent, the ability to refinance into a FHA-insured mortgage. Since then, FHA Secure has helped more than 473,000 borrowers to refinance and keep their homes.

Initial Housing Industry and Government Response to Foreclosure Crisis

At the start of the foreclosure crisis and before being taken over by the government, Fannie Mae introduced HomeStay, a campaign that allows lenders it works with to refinance homes without first having to clear up borrowers' unpaid bills on their credit reports. It stretches the loan term for such refinancing to a maximum of 40 years from a current limit of 30 years, which reduces monthly mortgage payments by about 5%. This initiative includes borrower-friendly options such as low down-payments; long-term, fixed rates; low fees and points; a prohibition on pre-payment penalties; and a ban on arbitration clauses. Fannie Mae estimated that about 1.5 million homeowners who face resetting ARMs and potential payment shock during the next two years could be eligible for its loan options. Fannie Mae later announced it would help troubled borrowers whose homes are worth less than their mortgages by refinancing up to 120% of the property value. Fannie Mae is offering that option to borrowers whose loans are owned by Fannie Mae and who remain up-to-date on their mortgage payments.⁴

At the same time, Freddie Mac, which was also later on taken over by the government, announced plans to buy \$20 billion worth of fixed-rate and hybrid ARM products in order to provide more choices to about 130,000 troubled sub-prime borrowers. These loans were to include 30-year and possibly 40-year fixed-rate mortgages and ARMs with reduced margins, longer fixed-rate periods, and longer reset periods. Struggling lenders also began trying to stem foreclosures. Countrywide sought to refinance \$16 billion in loans that affected 82,000 borrowers, and Citigroup and Bank of America provided funds to Neighborhood Assistance Corporation of America to assist borrowers in refinancing \$1 billion in mortgages.⁵ Finally, the National Community Reinvestment Coalition established a Consumer Rescue Fund that works with victims of predatory lenders to make their mortgage payments more affordable.

Currently, Citigroup, Bank of America/Countrywide, and J.P. Morgan Chase are providing new flexible loan modification programs to help troubled borrowers living in areas with increasing unemployment (Citigroup), or with sub-prime loans (Bank of America/Countrywide, or with sub-prime adjustable-rate mortgages (J.P. Morgan Chase).

Fannie Mae also provided \$5 million in grants to support a national foreclosure

prevention initiative being managed by NeighborWorks of America and the Homeownership Preservation Foundation. These national organizations have joined with local governments, other nonprofit organizations, and lenders to counsel and help families overcome obstacles that could result in the loss of their homes. The Homeownership Preservation Foundation created a web site, www.995HOPE.org, and a toll-free hotline at 888-995-HOPE (available in both English and Spanish) to help financially-stressed borrowers develop a budget or explore loan work-out options. A large number of such borrowers are not even aware work-out options are available.

In October 2007, a new initiative, HOPE NOW, was established to help homeowners retain their homes, through a direct mail campaign and by developing best practices for counseling groups across the nation to ensure speedy and efficient loan modifications. The initiative is made up of a government-approved network of counselors, the nation's largest mortgage lenders, service companies, investors, and large trade organizations. The initiative includes the toll-free hotline at 888-995-HOPE. Its website, <http://www.hopenow.com>, provides tips to borrowers on locating the lender associated with their mortgage, as well as links to credit counselors who can assist homeowners in need of a loan modification. So far, the HOPE NOW Alliance has facilitated more than 1.7 million loan workouts to help homeowners at risk of foreclosure.

The National Foundation for Credit Counseling (NFCC) offers a phone number – (866) 557-2227 – and websites, www.HousingHelpNow.org and www.Nopierdastuhogar.org, which also offer assistance to financially-stressed borrowers. The National Association of Realtors (NAR) and the Center for Responsible Lending have jointly produced a brochure, “Are You Having Problems Paying Your Mortgage? Learn How to Avoid Foreclosure and Keep Your Home,” which can be found at www.REALTOR.org/sub-prime.

The Mortgage Bankers Association's web site, www.homeloanlearningcenter.com, lists nearly five dozen lenders who can help borrowers who are having problems making their monthly mortgage payments. In turn, the Department of Housing and Urban Development (HUD) lists HUD-approved counseling agencies by state at www.hud.gov/counseling. Its website, www.hud.gov/foreclosure, helps FHA borrowers and others to avoid foreclosure.

Freddie Mac also promotes home buyer education and counseling through programs such as CreditSmart®, its award-winning financial education curriculum, and Don't Borrow Trouble, an anti-predatory-lending campaign. These programs help borrowers understand the mortgage origination process, their housing finance options, and how to avoid abusive lending practices (see guide at www.freddiemac.com/corporate/buyown/english/owning/avoid_foreclosure.html).

Finally, the National Council of La Raza, a major civil rights organization, has testified before Congress and proposed broad support and expansion of foreclosure prevention counseling, the creation and delivery of rescue loan programs, and enforcement actions against predatory and fraudulent foreclosure scams. Because of the significance of the newly enacted Housing and Economic Recovery Act of 2008 and the related financial rescue legislation, an entire chapter of this book describes all of this new legislation, especially new provisions which seek to stem the growing tide of foreclosures and to reinvigorate the housing sector.

Tapping the Potential of Hispanic Homeownership: The Opportunities

Census data show that from 1994 to 2006, homeownership among non-Hispanic White households in the U.S. rose from 70% to 76%, an increase of 9%. During the same time span, Hispanic homeownership rose from 41% to 50%, an increase of 22%, or more than twice the rate of non-Hispanic White households (See Table 1.1).

Significantly, the rate of homeownership for the entire U.S. population declined from a record high level of 69% in 2004 to 67.8% in 2008, with the rate of homeownership for African-Americans declining most steeply, from 49.7% to 47.9%. On the other hand, during the same time period, the rate of homeownership for Hispanics increased from 48.1% to 49.2%. In fact, since 2003 when their rate of homeownership was 46.7%, the rate of Hispanic homeownership rose by more than two percentage points, representing a sizable increase of more than 5%. Since then, the growth in the number of Hispanic homeowners has continued to outpace that of Hispanic renters.

Hispanics took out 692,014 home-purchase loans in 2006, outpacing all minority groups. This number was more than 50% greater than the number of home-purchase loans that African-Americans took out (448,082). In 2005, Hispanics took out an even larger number of home-purchase loans (729,845), which helped to increase their rate of homeownership dramatically over the subsequent two years.

In 2006, North Carolina had the strongest positive growth of Hispanic home buyers, with a 21.6% increase over 2005. Hispanic homeownership also grew by more than 8% in Texas, Georgia, New Mexico, Pennsylvania, Utah, Tennessee, South Carolina, Louisiana, Oklahoma, Washington, DC, Mississippi, and North Dakota.⁶

Table 1.1 Homeownership Percentage Rates by Race/Ethnicity

Year	All Households	White Non-Hispanic	Hispanics	Black	Asian/Other
1994	64	70	41.2	42.5	50.8
1995	64.7	70.9	42.1	42.9	51.5
1996	65.4	71.7	42.8	44.5	51.5
1997	65.7	72	43.3	45.4	53.3
1998	66.3	72.6	44.7	46.1	53.7
1999	66.8	73.2	45.5	46.7	54.1
2000	67.4	73.8	46.3	47.6	53.9
2001	67.8	74.3	47.3	48.4	54.7
2002	67.9	74.7	47	48.2	55.0
2003	68.3	75.4	46.7	48.8	56.7
2004	69	76	48.1	49.7	59.6
2005	68.9	75.8	49.5	48.2	60.4
2006	68.8	75.8	49.7	48.4	61.1
2007	68.1	75.2	49.7	47.8	60.3
2008	67.8	75.0	49.2	47.9	59.8

Source: *The State of the Nation's Housing 2008*, Harvard University Census Bureau Homeownership and Vacancy data

Future Prospects of Hispanic Homeownership

Given this historical homeownership record and in spite of the various challenges continuing to confront Hispanics, the rate of Hispanic homeownership should continue to increase over the long run because:

- **Hispanics are now the largest minority group in the U.S. and represent an increasing proportion of the age group most involved in home purchases - 26 to 46 years of age.**

In 2006, the Hispanic population was much younger, with a median age of 27.4, compared with the population as a whole at 36.4. Hispanics now account for well over 30% of total household growth in the country. They are also more likely to be married with children (38%) than non-Hispanics (23%), and thus have a strong incentive for purchasing a home.

- **Hispanics are continuing to achieve economic progress because of their vigorous work ethic, larger size of families, and the substantial gains they are making in education, business growth, and income.**

The Hispanic rate of participation in the labor force has already surpassed the rate for the general U.S. labor force. In addition, larger Hispanic households with multiple wage earners often pool their incomes in order to buy a home.

Census data show that Hispanic households are larger (3.4 members) than households for the entire U.S. population (2.4 members). They are also more likely to include three or more workers in the family than others, more likely to include extended family members, and more than twice as likely as others to have boarders who are not relatives.⁷

The gains Hispanics are making in education are also playing a significant role in their economic progress. From 1994 to 2005, the percentage of 18- to 24-year-old Hispanics who graduated from high school or obtained a GED rose from 56% to 66%. Nearly 25% of these young Hispanics are now enrolled in college, up from 19% in 1994. In addition, Hispanics are moving quickly into management, professional, and other white-collar occupations.

From 1980 to 2000, the number of Hispanic families with annual incomes over \$40,000 increased by 80% - three times the rate of increase of the overall population. According to NAHREP, approximately 4 million Hispanics, or about 40% of the Hispanic population, now earn an annual income above \$40,000. Furthermore, the number of Hispanic households who earn more than \$100,000 per year has grown over the past decade by 125%, to 3.7 million, representing a total net worth of \$500 billion. More than 10% of all Hispanic households now earn over \$100,000 a year.

Recent census data show that between 1994 and 2007, median Hispanic household income rose 23%, from \$31,500 a year to \$38,700 a year. Hispanics are expected to continue growing in affluence at a much faster rate than the general population.⁸

In 2007, Hispanic purchasing power surged to \$863 billion. It had been expected to surpass \$1 trillion by 2010, when it was to exceed the economies of Canada and Mexico and trail only those of the United States and Brazil in the Western Hemisphere.

The University of Georgia's Selig Center for Economic Growth has projected that the disposable income of Hispanics may reach \$1.2 trillion by 2012. As far back as a decade ago, immigrants alone, primarily Hispanics, were already adding as much as \$10 billion to the economy each year, more than what they were taking from it in the form of social programs, education, and health services.⁹

Hispanics are also starting many businesses such as manufacturing companies, restaurants, mechanics shops, hair salons, construction companies, landscaping businesses, and housekeeping services, which often serve as spring-boards to sustainable family success. According to HispanTelligence, about 3 million Hispanic-owned businesses in the U.S. generated \$389 billion in sales in 2008. By 2010, 3.2 million Hispanic-owned businesses are expected to generate \$465 billion annually. In particular, the number of businesses owned by Hispanic women is growing dramatically, having increased by 121% between 1997 and 2006. As of 2006, 745,000 firms were owned 51% or more by Hispanic women, who employed 278,000 people and generated nearly \$46 billion in sales.¹⁰ Currently, one out of 20 businesses in the United States is owned by Hispanics. Such businesses typically hire more Hispanics than non-Hispanic firms and often help in developing homeownership opportunities for them. The most striking development in the growth of Hispanic businesses is that of the top five hundred Latino-owned companies which *Hispanic Business* magazine has been tracking over the years, the top five in their ranking now exceed one billion dollars in revenues, and the top seventy have revenues of more than one hundred million dollars.

In summary, higher levels of income and education, spurred by a strong work ethic and aspirations for a better life, are continuing to help many Hispanic families buy their first homes.¹¹ According to NAHREP, Harvard University's Joint Center for Housing Studies has estimated that Hispanics will make up close to 33% of home buyers by the end of the decade. Paving the way has been a rapidly-growing number of Hispanics who earn more than \$100,000 per year and now represent more than 10% of all Hispanic households. They tend to range in age from 45 to 54; typically have school-age children and possibly extended family members at home; 50% are immigrants (foreign-born); and three out of four are married and own a home.¹²

- **Hispanics are moving to every region in the country, especially to areas with growing Hispanic populations, in search of better job opportunities and affordable housing.**

Hispanics are particularly moving from high-cost housing markets such as San Francisco, where they have relatively lower median household incomes when compared to non-Hispanic Whites. In contrast, in other cities in the country Latinos have high median household incomes and enjoy relatively low housing costs. Among these cities are Beaumont and Galveston, Texas; Melbourne, Daytona Beach, and Sarasota, Florida; New Orleans; St. Louis; and Nashville.

Cities with the lowest homeownership costs as a percentage of income include Beaumont, Texas (16%), Melbourne, Florida (18%), and St. Louis (20%).¹³ Likewise, lower

home prices are making housing more affordable in Boston, Phoenix, Bradenton, Cape Coral, Tampa, West Palm Beach, Miami and Fort Lauderdale, Springfield, Illinois, Reno and Las Vegas, Riverside-San Bernadino-Ontario, Stockton, Los Angeles and San Diego, and Washington, DC.¹⁴

- **More Hispanic low-to-moderate-income families are now able to afford purchasing a home.**

Of the total 1.4 million mortgage loans made to Latinos in 2005, about 500,000 loans (or 35%) were made to Latino households with below-median incomes. This substantial number of loans represents a promising market for affordable lower-end home sales, especially if qualified Latino households with incomes between 50% and 120% of area median income take advantage of available homeownership assistance programs. The current housing market is providing an opportune time for Latino households to buy a home.

According to HUD, service providers in some major Hispanic cities serve Hispanic renters earning between 50% and 80% of area median income, who typically represent about 25% of all Hispanic renters in these communities. A similar proportion of Hispanic renters in these communities earn 80% to 120% of area median income. Many of these Hispanic renters are in a relatively good position to purchase a home, especially if they are provided with adequate information about, and receive, homeownership financial support and services.¹⁵

- **As we continue to experience historically-attractive affordability, more Latinos from all income levels can now purchase a home, especially in the inner cities, outer suburbs, and in small towns.**

Because more homes are selling at the lower end of the market, but taking longer to sell, the housing industry is particularly helping more first-time home buyers to benefit from homeownership assistance programs. These programs help cover down-payment and closing costs, and, in many instances, help lower the monthly mortgage costs through subsidized, below-market soft-second mortgage loans. In addition, these programs require that borrowers get loans that are in line with their creditworthiness and financial capacity, offer as much as \$90,000 or more in assistance in high-cost communities, and usually combine local, state, and federal government housing funds.

As early as April 2007, the Commerce Department was reporting that more than 40% of the new-home sales recorded nationwide were for homes \$200,000 or less. A year later, homes at the lower end of the market were making homeownership more readily affordable for Latino first-time home buyers, as these homes continue to experience the greatest decline in prices across the country. In fact, in 12 of 17 major Metropolitan Statistical Areas (MSAs), larger declines have occurred in the values of lower-priced homes than higher-priced homes.¹⁶ For example, in MSAs such as Los Angeles and San Diego, the decline in values of lower-priced homes over the past year ranged from at least 18 to 23%, whereas that of higher-priced homes ranged from just over 7 to 9%.

In addition, in November 2007 The San Diego Union-Tribune reported that low- and moderate-income buyers – long priced out of the region’s real estate market – had

acquired renewed hope as a result of the wave of foreclosed homes coming on the market in San Diego County. The Union-Tribune reported that thousands of homes once selling for \$450,000 were now selling for about \$300,000.¹⁷

A year later, according to the S&P/Case-Shiller home price index, home prices in October 2008 had plummeted by 18%, with prices declining by 19% in Washington, DC, 27% in San Diego, 28% in Los Angeles, 29% in Miami, 31% in San Francisco, 32% in Las Vegas, and 33% in Phoenix during the same time period. In other areas of the country, home prices had declined by as much as 40% by the end of 2008.

In addition, by the end of 2008 interest rates on a 30-year fixed rate loan were hovering around 5%, the lowest interest rates recorded by Freddie Mac since it started its interest rate survey 37 years ago. According to the S&P/Case-Shiller home price index, by March 2009 home prices were making homes more affordable than at any time in the last 40 years, when compared with personal income. By then the median price of existing homes had fallen 26 percent since it had peaked in July 2006, while disposable income had risen 9 percent. As a result of such a precipitous decline in prices, by March 2009 homes were costing less relative to income than at any time since the late 1960s when such data first began to be gathered.



Such bargain basement home prices and near-record low interest rates, along with foreclosure-driven discounts in various parts of the country, are now making it possible for more Hispanic families to buy a home, and for nonprofit organizations to help many Hispanic low- to moderate-income first-time home buyers obtain local, state, and federal homeownership financial assistance.

Homeownership assistance programs require more time and effort. However, they are also more readily available today, can financially empower more first-time home buyers to qualify for and afford a loan, and can allow sellers to sell at list price or close to

it. Because these programs prohibit abusive loan practices and require counseling, most home buyers are able to achieve sustainable homeownership.

A HUD study in 2009, for example, analyzed delinquency and foreclosure rates for both HUD HOME- and American Dream Down Payment Initiative (ADDI)-assisted borrowers who purchased homes from 2001 through 2005. The study found that borrowers with HUD's HOME or ADDI down payment assistance had lower average foreclosure rates than a similar set of borrowers that did not have down payment assistance. Such borrowers achieved lower rates of foreclosure than the FHA loan program and substantially lower rates than those experienced in the sub-prime market.

Indeed, these types of homeownership assistance programs do not contain any of the characteristics found in sub-prime and exotic loans programs that are strongly associated with high default rates. Given the evidence provided, the HUD report demonstrates that these homeownership assistance programs can be carefully developed and managed to successfully reduce financial risk and enable eligible families to sustain homeownership.¹⁸

Lenders have in the past hesitated in making loans to lower-income families because of the perceived higher risks and costs associated with these loans. They are, however, beginning to find out that in addition to Community Reinvestment Act benefits there are other offsetting benefits related to these loans. Recent studies have shown, for example, that many fixed-rate mortgages made to lower-income families tend to be prepaid more slowly than other loans when rates fall. The positive effect of the lower rate of prepayment for these loans was found to offset the negative effect caused by the higher default rates for the same types of loans. As Heather Gratton of the Federal Deposit Insurance Corporation makes clear, loans that prepay less rapidly when rates fall are more valuable to the holder of such loans.¹⁹

In summary, using homeownership assistance programs to help lower-income Latino families buy homes should result in making more profitable mortgage loans that prepay less rapidly than others. Latinos are remarkably brand-loyal, clinging to products and services they are already familiar with, and are likely to shun going through a costly and rigorous loan process again. Buttressed by the provision of counseling and greater housing affordability, Latinos will do everything they can to keep their homes.

• Low-interest rates, government-backed loans, and targeted, non-predatory lending by financial institutions are making homeownership more affordable for Hispanics.

As of this writing, 30-year fixed rate mortgage loans are hovering around 5 to 6 percent, Congress has enacted FHA reform legislation, and lenders can use targeted loan products to reach Hispanics effectively. Many sellers and builders are also offering incentives such as paying mortgage points or fees or providing a home warranty plan or free moving services. Other incentives include furniture, televisions, or a vacation. Hispanics are also realizing that the sooner they are able to afford and buy a home, the sooner they can build appreciation and benefit from mortgage interest deductions.

Several companies have also introduced innovative underwriting systems that enable lenders to assess the credit-worthiness and financial capacity of all borrowers more accurately. These systems take into account multiple wage earners and documented income from more than one job, and they add weight to on-time payments of rent, phone

bills, utilities and other “alternative” credit indicators. Such systems also spare underwriters the extra time and expense associated with processing “thin” credit, Individual Tax Identification Number (ITIN), and other loan applications that typically benefit Hispanic immigrants, first-time homebuyers, and other underserved groups.

- **Although foreclosures have risen because of problems in the sub-prime market, vigorous government and industry efforts to assist troubled borrowers should help a substantial number of Latino homeowners to keep their homes.**

If these largely positive actions prevail – if financially-stressed borrowers are timely and effectively assisted, wide-ranging predatory lending is minimized, and Hispanic consumers buy and borrow wisely – the gap in the rate of homeownership between Hispanics and the total U.S. population should diminish again by the end of the decade.

- **Effective marketing and financing continue to empower Latino homebuyers with more precise and reliable information about existing homeownership programs, affordable mortgage rates, and home prices.**

The introduction of automated underwriting standards and alternative and non-traditional credit scoring mechanisms is making it possible for an increasing number of Latinos to buy a home and secure the lowest-cost loans possible for which they qualify. Moreover, a greater number of loan products and assistance programs are now available, targeted to those who can afford them and provided along with adequate homebuyer education and counseling.

Currently, traditional credit scoring makes it difficult for many buyers, especially those without Social Security numbers, to achieve homeownership. New credit-scoring systems, however, look at utility, rent, and other such payments to determine risk. The National Association of Hispanic Real Estate Professionals (NAHREP) maintains that California, Texas, and other states with large numbers of immigrants could see a dramatic jump in homeownership if a greater number of major lenders adopted alternative credit-scoring systems.²⁰ NAHREP’s former chairwoman, Frances Martinez Myers, foresees that use of these alternative credit-scoring systems could extend an additional \$200 billion in new home loans to Latino buyers.²¹

The Hispanic National Mortgage Association (HNMA), a new for-profit mortgage company, has already created an automated underwriting system that takes into consideration remittances, multiple borrowers, secondary cash income and income from different jobs, and on-time performance in rents, phone bills, and utility accounts. Major lenders such as Wells Fargo and CitiMortgage also consider nontraditional credit when making underwriting decisions.

For example, in October 2007, CitiMortgage set aside \$200 million for mortgages to Washington, DC Latino immigrants and others who had limited credit histories and who shied away from using credit cards or taking out loans. Such “thin-file” borrowers are usually rejected for mortgages they could actually afford, and end up taking out costly sub-prime loans.

At the time, the CitiMortgage initiative had expected to serve an estimated 2,000

persons in the DC metropolitan area, with Neighborhood Housing Services of America coordinating the project. In addition, Fannie Mae and State Farm Insurance each agreed to buy \$100 million worth of the mortgages.²²

- **An unprecedented number of opportunities are opening up for housing industry professionals to work closely with government housing agencies, nonprofit housing organizations, and housing counseling groups in order to tap the rapidly growing Hispanic homeownership market successfully.**

Today, there is an increasing presence of bilingual, culturally sensitive, and highly ethical real estate professionals in cities such as Chicago, Las Vegas, Durham, North Carolina, and Washington, DC. These professionals are partnering with nonprofit housing organizations, community development corporations, counseling groups, and housing agencies in order to provide coordinated professional homeownership services, including counseling, suitable mortgage products, and financial assistance programs.

According to the Harvard Joint Center for Housing Studies, over the next 20 years Hispanics will make up 40% of all first-time homebuyers. The Tomas Rivera Policy Institute projected a few years ago that 1.5 million Latino households would buy homes by 2010. It estimated that another 700,000 Latino families could become homeowners if the housing industry adequately offers bilingual outreach, counseling, and access to innovative mortgage products. These 2.2 million Hispanic households represent an additional \$500 billion in home sales and \$450 billion in mortgage sales for the housing industry.



HUD's Federal Housing Administration is one government agency, for example, that will be opening up substantial opportunities for housing industry professionals seeking to increase the rate of Hispanic homeownership. FHA's insured loans offer low down-payments and lower interest rates, are easier to qualify for, can be assumed, and have no prepayment penalties. Its modernization is expected to increase the number of mortgage loans to Hispanics, thus providing a viable alternative to sub-prime loans and preventing borrowers from accepting unsuitable and costly loans.

FHA reform is therefore expected to restore a choice to homebuyers who cannot

qualify for prime financing, and to provide more options for all potential FHA borrowers. It is intended to reach an increasing number of families in need of safe and affordable home financing.

FHA's modernization legislation recently enacted as part of the Housing and Economic Recovery Act of 2008 (HERA) is also increasing its loan limits in order to prevent FHA from being priced out of many housing markets. Before, few buyers of homes in high-cost areas had been able to use FHA financing because FHA's loan limits were not high enough to meet the cost of most homes there. By increasing and simplifying loan limits, FHA will once again be a major player in high-cost areas.

Under HERA, FHA will also be able to begin underwriting loans for applicants with thin or "nontraditional" credit histories without reference to credit scores, giving heavier emphasis to rent and utility payments as well as to other measures of creditworthiness.²³ This should benefit Hispanics because a recent Federal Reserve Study found that married individuals and immigrants perform better than predicted by their conventional or traditional credit scores. Thus, the Federal Reserve finding provides an important rationale for FHA's use of an alternative credit scoring mechanism to extend credit to Hispanics with "thin" credit files, since most immigrants are Hispanic, half of all Hispanic households earning more than \$100,000 are immigrants, and more Hispanic households are married with children (38%) than non-Hispanic households (23%).²⁴

Ideally, FHA's underwriting and pricing of loans in the absence of credit histories should measure rent and utility payments as well as other measures of creditworthiness in a way that approximates the quality and precision achieved by the Hispanic National Mortgage Association's own automated underwriting system for such loans. This would ensure that Hispanic borrowers with "thin" files would be charged fees and premiums that more accurately reflect their true creditworthiness.

Other agencies that can work effectively with housing industry professionals include USDA's Rural Housing Service, whose aggressive outreach efforts have over the years resulted in more Latinos attaining homeownership in small towns and rural areas. In contrast, HUD's Public Housing's Voucher Homeownership Program is particularly beneficial to Hispanic lower-income families and female heads of households living in predominantly metropolitan areas. However, HUD needs to vigorously promote and extend this program to a greater number of public housing authorities and communities across the country.

- **The 109th Congress enacted a new law that allows lower- and moderate-income homebuyers, for the first time, to deduct the full cost of mortgage insurance from their federal income taxes.**

Since more than half of all new Latino homeowners pay for mortgage insurance, the new legislation will increase opportunities for many Latinos who would otherwise not be able to purchase a home. The new law makes all mortgage insurance premium payments deductible for homeowners with adjusted gross household incomes of \$100,000 or less. The average savings for families that qualify for the deduction is estimated at \$300. In 2007 alone, this new tax relief was expected to help nearly one million homebuyers finance a home with an affordable mortgage and reduce its costs.²⁵

- **The enactment of new immigration laws would enhance the possibility of legalizing the status of undocumented immigrants.**

Such immigration reform legislation would enable many previously undocumented immigrants to fulfill their dreams of homeownership in the United States. The growth of Latino immigrant homeowners will depend largely on their legal status, their economic progress, and the ability of the financial and housing industry to reach them successfully.

NAHREP currently estimates that about 375,000 undocumented immigrant households are eligible for mortgages. It calculates that selling homes to these immigrants would generate about \$85 billion in new mortgage originations.

- **Hispanics are highly motivated to buy a home because they yearn for a place they can call home, want to leave behind something of value for their children, and seek to become free of the restrictions and poor living conditions they often associate with rental housing.**

National housing surveys show that at least 70% of Hispanics show a strong preference for homeownership.

In the five years prior to the “sub-prime” debacle, housing appreciation rates had increased remarkably in five of the most popular places for Hispanic homeownership in the country. According to the Office of Federal Housing Enterprise Oversight, housing appreciation rates over the past five years increased by 142% in Riverside, California, 136% in Los Angeles, 133% in Miami, 97% in Phoenix, and 51% in Chicago. As of the second quarter of 2007, the median home prices were \$397,000 in Riverside, \$384,000 in Miami, \$265,000 in Phoenix, \$283,000 in Chicago, and \$593,000 in Los Angeles²⁶

Overall, the average housing appreciation rate over the past five years was 83% in the top Hispanic demographic areas. In addition, in 2007, national median area home pricing was about \$220,000, well below the prices in eight of the top 10 metropolitan areas for Hispanic populations.

Of course, home prices have plummeted in most of these markets within the past two years. According to the Case-Shiller Index, another set of home prices data, at the end of October 2007 home prices in Los Angeles had fallen by 6% from a year before but were still up a net 89% since 2002. Similarly, home prices in Phoenix were down 8% from a year before, but were still up a net 80% since 2002.²⁷

With the exception of the minimal to negative equity realized by Hispanics who bought close to the peak of the housing boom, most of the equity attained by Hispanics remains intact. Thus, homeownership is still continuing to preserve considerable wealth for successful Hispanic homeowners.²⁸ As of the end of 2008, nearly a majority of Hispanics (49.2%) still owned their homes.

Housing Industry Reaction to Hispanic Market Needs

In spite of the current credit-stringent situation, the housing industry is still being encouraged to offer user-friendly mortgage loans, longer amortization schedules,

improved technology, and better-targeted automatic underwriting standards. Such automatic underwriting standards, including those that use new alternative credit scoring systems, have dramatically reduced the transaction costs of originating mortgage loans, as well as the time it takes to make sound underwriting decisions, making it easier for Hispanic home buyers to afford and obtain a mortgage loan.

More important, for Latino homebuyers who qualify, homeownership assistance programs are now available in the form of deferrable and below-market rate loans as well as closing and down-payment grants. The availability of these loan products and financial assistance has made it possible for thousands of Latinos in recent years to become homeowners, repay their loans, and accumulate substantial equity.

The recent tightening of credit is leading many lenders to insist on only making loans that are affordable, and in the case of homebuyers who are eligible for government housing assistance, they require that these homebuyers receive counseling in order to ensure that they achieve sustainable homeownership. Such lenders are increasing their outreach efforts to Latinos because they are now collectively recognizing the tremendous potential that the rapidly-growing Hispanic housing market represents.

The challenge ahead remains one of connecting the dots – ensuring that every effort is made to use the variety of loan products and homeownership assistance programs that are available. Such undertaking requires the effective provision of homebuyer education, counseling, and outreach by the housing industry, government housing agencies, and nonprofit housing agencies, whose combined contributions help make homeownership possible for thousands of Latinos.

Several partnerships involving these entities have successfully increased homeownership opportunities for Latinos through the effective coordination of resources. Major lenders and organizations such as NAHREP, the National Council of La Raza, the League of United Latin American Citizens (LULAC), the Puerto Rican Forum, and the Cuban American Council have joined efforts to expand the use of homeownership loan programs that meet the needs of Latino immigrants, female heads of households, and hard-working individuals and their families.

In the near term, the housing industry and government face the formidable task of taking vigorous action to help preserve homeownership for financially-stressed borrowers. The ability of these homeowners to keep their homes is crucial to the recovery of housing and the economy.

In the long term, the housing industry must demonstrate that catastrophic setbacks in the sub-prime market will only serve to strengthen its determination to expand meaningful homeownership opportunities throughout the country. In the case of Latino borrowers, the housing industry must not revert to any undue restriction of credit; rather,



it must forge ahead and improve its evaluation of the true credit-worthiness of Latino borrowers through the expanded use of culturally sensitive underwriting criteria, including the adoption of automated alternative credit scoring systems. Lenders must also realize that the current foreclosure crisis resulted from the adoption of loan features such as prepayment penalties, adjustable rates, and reduced or no income documentation that were not directly linked to verifiable borrower credit risk.

By demonstrating equitable and responsible treatment of all homebuyers, the housing industry can restart in earnest its efforts to successfully tap the richly diverse and rapidly growing Latino homeownership market. Until recently, the Hispanic National Mortgage Association, for example, had been providing more efficient loans to Latino immigrants who qualified for interest rates of 8% to 9%. Most of these borrowers would traditionally have been considered sub-prime and charged higher rates by other lenders.

HNMA's \$200 million portfolio of non-traditional-profile, mostly first-time immigrant buyer loans has an average default rate of less than 1% and is financing close to 2,000 Latino homebuyers. According to HNMA, the secret of low defaults is the balance it achieves between expanded flexibility in certain guidelines and rigorous scrutiny in others. It uses flexible criteria that include 100% loan-to-value options, accepting secondary cash income and multiple borrowers, and dealing with customers without a Social Security number. HNMA, however, is quite strict about full-income documentation, insisting that borrowers must prove they pay taxes for at least two years, because that is the base income it uses to qualify them.²⁹

Recommendations for the Housing Industry

Over the past decade, the housing industry has produced several affordable new loan products, including FNMA's Community Lending, Federal Housing Administration, and Individual Tax Identification Number loans. Accordingly, efforts to increase the rate of Hispanic homeownership must now focus on aggressively reaching out to Hispanic consumers with full and accurate information about these loans. Lenders in particular need to help borrowers know and plainly understand their loan terms and conditions by:

- Clearly disclosing and explaining the type of mortgage loan, the loan amount, and the term of the loan.
- Summarizing the loan's interest rate and all the upfront charges (lender fees plus all settlement costs and the amount of any monthly billed charges). This information must include the cost of the loan, interest payments, and any other finance charges, which are all expressed as an annualized percentage rate (APR).
- Specifying the loan payments, penalties and fees, and the taxes and insurance fees included in the monthly payment.³⁰
- Showing how the interest rate offered compares to the interest rate offered to

borrowers with stellar credit.

Finally, if the housing industry is to respond successfully to the homeownership needs of Latinos, it must:

- (1) Build, provide, and finance safe, decent, and affordable homes that are designed to meet their cultural needs and preferences.
- (2) Hire more bilingual and culturally sensitive real estate professionals, train them to maintain high levels of contact with the Latino community, and open a greater number of offices in areas heavily populated by Latinos.
- (3) Incorporate multicultural marketing and fully-integrated lending services for minority groups as vital core components of their organizational structure.
- (4) Demonstrate a commitment to helping Latinos achieve sustainable homeownership by ensuring that they receive full-cycle lending services, including pre-purchase counseling, assistance at the time of closing, and early intervention if consumers have payment problems. Such efforts must extend beyond regarding the Latino market as simply a one-time initiative, but rather as a permanent and full-fledged effort to serve it effectively. Tapping the Latino market successfully is crucial to the vitality of the housing sector over the next several decades.
- (5) Help Latino consumers avoid predatory practices by fully informing them about the dangers involved in obtaining loans that may be too risky, unsuitable, and costly.
- (6) Assist financially-stressed borrowers in keeping their homes.
- (7) Direct existing homeowners and new homebuyers to the various mortgage loan products that best suit their financing or refinancing needs.
- (8) Guide prospective first-time home buyers who qualify for financial assistance to highly responsive and streamlined sources of government and private sector subsidy programs.
- (9) Continue to provide bilingual and acculturated services after the consumer becomes a customer.
- (10) Implement employee acculturation training to improve service to clients.

The Future Ahead

More than ever, the housing industry must further advance, not shrink back from,

the goal of increasing homeownership opportunities nationwide. It needs to ensure that individuals and families are able to buy homes, maintain them, and build wealth over the long term. The goal must be to help all homeowners not only to finance and keep their homes but also to achieve a legacy of financial stability and wealth that can be passed on to future generations.

Concerted efforts are therefore needed to help consumers determine whether owning a home is the right choice to make now or later on; to ensure that they are well prepared for homeownership and choosing a home they can afford; to help them select the mortgage loan that best suits their financial capacity and credit standing; to advise them how to budget and invest appropriately in maintaining and improving their homes; and, finally, to provide consumers who are financially stressed with the right information, advice, and services that will help them keep their homes or minimize their losses.

Early in 2008, major lenders and government housing entities began taking more aggressive actions to help financially distressed borrowers, including launching Project Lifeline, a federal partnership initiative that includes all of the mortgage lenders comprising the HOPE NOW Alliance. The federal initiative allows borrowers whose mortgage payments are three months or more behind to request a 30-day halt in foreclosure procedures while they seek to have their loans modified. Later in 2008, Congress passed the Housing and Economic Recovery Act of 2008 (HERA), designed to help hundreds of thousands of homeowners who are facing foreclosure, to reinvigorate the real estate market through homeownership tax credits and permanently raise conventional and FHA loans limits in high cost markets. These efforts are still being modified and streamlined to achieve the desired results.

Summary

Increased levels of homeownership are achievable if many of the policy recommendations described in these pages are adopted. Indeed, the Housing and Economic Recovery Act of 2008 already includes several of these recommendations, all of which are described in NAHREP's *The Potential of Hispanic Homeownership: Challenges and Opportunities*, an abridged version of this book. These public policy recommendations, which are now law, include:

- A national housing trust fund.
- Homeownership tax credits.
- Tax benefits for homeowners who do not itemize on their tax returns.
- FHA modernization and reform.
- Higher loan limits for GSE and FHA loans.
- Revitalization of deteriorated areas directly affected by foreclosures.
- Timely and meaningful mortgage disclosure.
- Establishment of an automated process for providing alternative credit rating information for borrowers who have insufficient credit history to determine their creditworthiness.
- Expansion of federal housing programs, homebuyer education, and counseling, especially to prevent foreclosures and to achieve sustainable homeownership.

In summary, homebuyer education, financial literacy, and pre- and post-purchase counseling must continue to be emphasized in order to ensure that new Hispanic homebuyers make the right choices and are able to preserve their homes. To make certain that Latinos have access to affordable mortgage loan products, lending institutions must continue to expand their marketing and outreach efforts across the country. Likewise, lenders must do everything they can to inform hard-working Latino families of the various homeownership assistance programs that are widely available today. The housing industry must also be totally committed to the goal of increasing homeownership for all Americans who qualify for, and can obtain, safe and sound mortgage loans, especially through innovations such as longer-term fixed rate loans, use of alternative credit scoring systems, and equity-sharing programs.

Finally, if those pundits who claim that extending loans to minority and immigrant borrowers with “weak credit” caused the nation’s economic crisis are even just partially correct, then it follows that major lenders must have strongly believed that making these loans to these homebuyers would result in both increased profits and continued prosperity. After all, Latino borrowers alone are expected to lose between \$75 billion and \$98 billion from sub-prime loans made during the past eight years.³¹ If the financial markets began to collapse because many of these loans proved to be inappropriate, costly, and even fraudulent, then it follows that the housing sector can flourish once again by making sound and viable loans to the same targeted groups of borrowers.

Indeed, all lenders must make loans the right way – properly and transparently, providing borrowers with homebuyer education and counseling, reasonable loan terms and conditions, affordable down-payments, and homeownership assistance for those eligible borrowers who are buying a home for the first time.



Best Practice: Financial Literacy, Homebuyer Education, and Outreach

To reach the Hispanic community, Freddie Mac and Bank of Texas joined together with NAHREP-Houston to launch an innovative outreach and education program through the sponsorship of the "Nuestro Barrio" (Our Neighborhood) telenovela. NAHREP-Houston and the Bank of Texas identified the Tejano Center, a housing counseling agency with an English as Second Language (ESL) program, for distribution of "Nuestro Barrio." This ESL program requires a financial literacy component and students view the "Nuestro Barrio" DVD series and discuss the issues. Bank of Texas serves as the sponsor of these classes, and provides additional banking services to these students. Students who desire to pursue homeownership have an opportunity to work with the Tejano Center to receive homebuyer education, credit counseling, and post-purchase counseling.

"Nuestro Barrio" is a Spanish-language 13-episode TV mini-series about Hispanic life in the United States, with a focus on financial topics and homeownership issues. It is a broadcast-quality product with English subtitles produced by Community Reinvestment Association of North Carolina's Media Advocacy division. "Nuestro Barrio" uses the telenovela (soap opera) format to engage consumers. It presents a balance of drama and consumer information that appeals to the underserved Latino market, and is being shown on local television stations in Austin, Dallas-Fort Worth, and San Antonio, Miami/Fort Lauderdale, and Phoenix. The telenovela provides its targeted audience with valuable information on financial topics and homeownership issues, especially information on ways to avoid predatory lending and prevent foreclosure.

Source: Freddie Mac



Best Practice: Ethical Subprime Loans that Help Achieve Sustainable Homeownership

Since 2003, Clearinghouse CDFI (community development financial institution), based in Lake Forest, California, has made \$220 million in mortgages. More than 90 percent of its home loans have gone to first-time buyers, half of them minority buyers. Out of 770 single-family loans it has made, only seven have resulted in foreclosure. Last year Clearinghouse reported a \$1.4 million pretax profit. Community-development banks, credit unions and other CDFIs make up the "ethical sub-prime lending" industry. They charge rates slightly higher than those on conventional loans and manage risk properly. They determine their results on the basis of the loans' financial performance and the impact they have on the communities they serve. In 2007, for example, the Opportunity Finance Network, an umbrella group for CDFIs, collectively lent \$2.1 billion, with charge-offs of less than 0.75 percent. Chicago's ShoreBank alone has lent \$1.5 billion, of which only \$4.8 million are in foreclosure, or just 0.32 percent.

These ethical sub-prime lenders evaluate applications carefully, do not pay brokers big fees to lure customers into high-interest loans and mostly hold onto the loans they make rather than reselling them. They focus more on quality than on quantity. Clearinghouse's borrowers, for example, must qualify for the fixed rate mortgages they take out. Not surprisingly, these ethical sub-prime lenders are expanding their operations and helping thousands of new home buyers.

Source: Daniel Gross, Newsweek

Chapter Two

America's Response to the Housing Crisis

With respect to the housing crisis, more steps are needed to help the people, communities, and productive sectors which have been hurt the worst, to help those who are still going to be hurt; to ensure that this kind of housing crisis does not occur again; and to put the system of providing housing for Americans back on track.

The tragedy of this financial meltdown will become a permanent catastrophe if the lesson we take from it is that we should diminish the nation's quest for decent housing, including the commitment to homeownership and more recent efforts to boost minority homeownership. We must get back to producing the solid balance of housing the nation needs.

Henry G. Cisneros, Former Secretary, U.S. Department of Housing and Urban Development

On July 23, 2008, Congress enacted the Housing and Economic Recovery Act of 2008 (HERA), the implementation of which has already begun to have significant impact on the housing and mortgage markets as well as on both existing and potential homeowners, including Hispanics. The Act is designed to help hundreds of thousands of homeowners who are facing foreclosure, to stimulate the real estate market through homeownership tax credits, and to raise conventional and FHA loans limits in high-cost markets. The new law:

1. Authorizes the Federal Housing Administration to help troubled borrowers saddled with rapidly rising mortgage payments to refinance into more affordable loans if their bankers agree to forgive a portion of their debt. Even if borrowers are behind on their payments and their mortgage balances exceed their property values, they will be able to refinance their mortgages with lower-cost government-insured loans, thus relieving financial institutions of troubled debt and allowing borrowers to avoid foreclosure and to pay less each month.

The new law requires that existing mortgage lenders accept the proceeds of the insured loan as payment in full for all pre-existing indebtedness. In effect, lenders will take less than full payment for the distressed loans on their books, but the measures will allow them to get cash out of foreclosed properties that would otherwise sit on their books as dead weight.¹

This \$300 billion program, called Hope for Homeowners, is designed to provide refinancing rescue loans to an estimated 400,000 borrowers. The program covers mortgage commitments made on or after October 1, 2008 through September 30, 2011. The loans, however, are restricted to homeowners who cannot afford their current loans and have a mortgage-debt-to-income ratio above 31%. At the inception of the program, the new FHA mortgage was to be for no more than 90 percent of the new appraised value of the property. Since the program is voluntary, FHA later increased the mortgage amount to 96.5 percent of the new appraised value of the property in order to encourage lenders to refinance into HOPE loans rather than for lenders to determine it would be better for them to allow delinquent borrowers to go to foreclosure.²

The FHA will also impose an upfront insurance fee of 3% of the new loan amount, payable out of refinancing proceeds that would otherwise go to the original lender. Another recent FHA modification to the program offers holders of second liens an immediate payment in exchange for releasing their liens. FHA is also now allowing lenders to extend the life of a loan from 30 years to help reduce a borrower's monthly payments. In order to qualify, borrowers must also:

- Demonstrate a “lack of capacity” to pay their current mortgage, but have enough income to make regular monthly payments on a smaller, fixed-rate FHA loan. Lenders, in turn, must document and verify borrowers' income with the IRS.
- Certify to the government that they have not “intentionally defaulted” on their current mortgage or any other debt in order to refinance into a Hope loan. They must also certify that they are telling the truth about all aspects of their financial status and have never been convicted of fraud.
- Agree to use and occupy the refinanced house as a principal residence and not own any other homes.³

The federal government will also require that homeowner beneficiaries share any equity gains or appreciation profits from the sale of the house in subsequent years. The refinancing process itself would create some equity stakes for borrowers because the maximum loan amount as subsequently modified by FHA would be 96.5 percent of the appraised market value of the property.⁴

Troubled borrowers who have been in serious default will suddenly find themselves with nearly four percent equity stakes overnight, but they will not be able to tap that money quickly. If the home is sold within the first year after the refinancing, the FHA must be repaid the equity created in full. If the home is sold during the next four years, homeowners can retain rising percentages of the equity, up to 50%. In addition, the FHA will be entitled to 50% of any appreciation in market value from the date of refinancing to a subsequent sale.⁵ If all of the conditions described above are met, borrowers may qualify for the new fixed-rate 30-year FHA loans they can now more easily afford.⁶

Because the new loans will be guaranteed by the Federal Housing Administration, public funds will ultimately pay for defaults. The cost, however, would be covered by diverting a small portion of Fannie Mae and Freddie Mac's profits into a new affordable housing trust fund that in future years will be used to finance affordable housing. The provision gives homeowners a chance to keep their homes, while preventing the government from having to appropriate billions of dollars to buy non-performing mortgages.

Until recently, credit markets had been fearful and paralyzed in part because banks and other financial institutions do not know what their subprime mortgages and related securities are worth. The uncertainty has been forcing lenders to hoard capital and stop the lending necessary for economic growth. Although restrictive, the new FHA Hope for Homeowners Program is intended to restore confidence and help reinvigorate the housing market. As of June 2009, however, the new program had attracted only a few hundred applications and a minimal number of loans.

2. Creates tax credits of up to \$7,500 per couple and \$3,750 per individual for qualified first-time purchasers of newly constructed or resale homes. The credit is equal to 10% of the purchase price of a principal residence, up to \$7,500. It phases out the credit for taxpayers with incomes over \$75,000 (\$150,000 for joint returns). No cap exists on the number of buyers to be assisted, and eligible buyers include those who have not owned a home for at least three years. Tax credits are considered more valuable than deductions because they are dollar-for-dollar reductions from what homebuyers would otherwise owe on their federal taxes.

The tax credit is expected to be a significant stimulus because it is directly targeted at selling both new and resale homes. The credit is expected to pull first-time homebuyers into the market and to have a multiplier effect as thousands of sellers of these credit-assisted houses buy replacement homes for themselves, thus extending the impact of the market into the move-up segment.⁷ Overall, the tax credit is expected to increase housing demand, get homebuyers back into the marketplace, and fight falling home prices, which will help stabilize and strengthen the housing sector.



To offset costs, the credit must be paid back to the Internal Revenue Service by imposing a surcharge on the taxpayers' annual income tax. If beneficiaries continue to live in the house as their primary residences, they have as long as 15 years to pay the tax credit without any interest. However, if they sell the house or convert it to some other use, such as a second home or investment property, then the tax credit has to be repaid more quickly. Later in 2009, President Obama's stimulus package instituted a new and improved home buyer tax credit. *The new credit was increased to \$8,000, applies for the year 2009, can be used as part of a down payment on an FHA loan, and – more important – does not require repayment.*

3. Provides \$4 billion in emergency assistance to stabilize communities hit hard by foreclosures. Homes that have been foreclosed and are sitting unoccupied lead to declines in neighboring house values, increased crime, and significant disinvestments. To ensure that communities can mitigate these harmful effects, these supplemental Community Development Block Grant (CDBG) funds will be used to purchase, at a discount, and rehabilitate approximately 120,000 foreclosed properties throughout the country. The bill also authorizes states to issue \$11 billion in mortgage revenue bonds, which can be used to encourage the purchase of an additional 87,000 low-income units.

The new law limits the use of the \$4 billion fund to properties owned by individuals and families earning no more than 120% of the area median income. At least 25% of the funds must be devoted to those at no higher than the 50% level. Any profit from the sale, rental, rehabilitation, or redevelopment of these properties must be reinvested in affordable housing and neighborhood stabilization. HUD funding for states and municipalities has already started as of October 2008, with the bulk of the assistance going primarily to those communities most adversely impacted by foreclosures.

4. Establishes an affordable national housing trust fund. Once viably funded and fully operational, the affordable housing trust fund will make available around \$500 million a year to provide more low-income housing. The fund will be financed by a small portion of profits from Fannie Mae and Freddie Mac (or sustained by the Treasury Department), and will be used primarily to support the construction, maintenance, and preservation of rental and homeownership housing for very-low-income families. Under the new law, Fannie Mae and Freddie Mac will make annual contributions to the fund, based on a percentage of their new business each year. In the first three years, some of the money was to be diverted to a reserve fund to cover any losses the Federal Housing Administration incurred while refinancing troubled mortgages for homeowners facing foreclosure.

Money from the fund will be doled out to states, which in turn will distribute money to agencies, developers, and nonprofit organizations qualified to produce rental and homeownership housing. The bulk of the money will be for projects serving households earning no more than 30% of the median income. Up to 90% of the funds can be used for the production, preservation, rehabilitation, and operation of rental housing, with not less than 75% of the funds to be used only for the benefit of extremely-low-income families with incomes at or below the poverty level.

Up to 10% of the funding is to be used for the benefit of producing, preserving, or rehabilitating homeownership housing for very-low-income families, including such funds as down-payment and closing cost assistance, and assistance for interest-rate buy-downs. To qualify for the homeownership program, families must be extremely low- and very-low-income first-time home-buyers, use their new home as principal residence, and have completed a program of independent financial education and counseling from an eligible counseling organization.

5. Permits the Secretary of HUD to carry out a pilot program that establishes an automated process for providing alternative credit rating information for mortgagors who have insufficient credit history for determining their creditworthiness. Such credit rating information may include rent, utilities, insurance payment histories, and other appropriate sources of credit history information. The Secretary may limit the program to first-time homebuyers or to Metropolitan Statistical Areas (MSAs) significantly affected by subprime borrowers.

Under this new pilot program FHA can effectively underwrite and price loans for applicants with “nontraditional” credit histories without reference to credit scores. This will particularly benefit Hispanics, since a recent Federal Reserve study found that married individuals and immigrants perform better than predicted by their conventional or “traditional” credit scores. The Federal Reserve study helps to validate FHA’s use of this new pilot program, since most immigrants are Hispanic, half of all Hispanic households earning more than \$100,000 are immigrants, and nearly twice as many Hispanic households are married with children than non-Hispanic households.

In other words, because most immigrants are Hispanics and more Hispanics are married than non-Hispanics, some “non-traditional” credit history factors help explain why married immigrant Hispanics – who have already established credit histories and credit scores – perform better on their mortgage loans than their conventional or “tra-

ditional” credit scores alone would indicate. As a whole, these Latino households are stimulated by their high sense of pride of homeownership and credit status to responsibly pay their utility bills, mortgage loans, and insurance payments. Many of them even regularly send money to relatives in their native countries and are able to finance home improvements and start new businesses.

6. Provides a \$500 standard deduction for property taxes in 2008 for individuals and \$1,000 for joint filers. This provision will benefit homeowners who do not itemize on their tax returns. The new benefit is intended to benefit seniors and low- and moderate-income households who opt for the standard deduction but also pay local and state property taxes.

7. Provides \$180 million for financial and legal counseling for troubled borrowers. To help families avoid foreclosure, the new law provides \$150 million in additional funding for housing counseling, with 15% of the funds targeted for low-income and minority homeowners and neighborhoods. These funds were to be distributed by the Neighborhood Reinvestment Corporation by the end of 2008 to ensure that families can quickly get the help they need. As a result of these counseling funds, as many as 250,000 additional families will be able to connect with their lenders to explore options that will keep them in their homes. In addition, \$30 million is provided to help provide legal services for distressed borrowers.

8. Prevents future abuses and crises by enhancing mortgage disclosure and establishing a nationwide loan originator licensing and registration system. To ensure that consumers are provided with timely and meaningful disclosures, the new law expands the types of home loans subject to early disclosures (within three days of application) under the Truth In Lending Act (TILA), including refinancing loans. The law requires that disclosures be provided no later than seven days prior to closing, so borrowers can shop for another loan if not satisfied with the terms. The law requires a new disclosure that informs borrowers of the maximum monthly payments possible under their loan, and also increases the range of statutory damages for TILA violations.

In addition, the new law establishes a nationwide loan originator licensing and registration system that will set minimum standards for loan originator licensing, substantially improving the oversight of mortgage brokers and bank loan officers. The national standards include criminal background checks, fingerprinting, continuing education, and testing.

9. Permits states to issue an additional \$11 billion in tax-exempt bonds to refinance risky, high-cost mortgages. The bonds can also be used to provide loans to first-time home buyers and to finance the construction of affordable housing.

10. Increases the low-income housing tax credit which helps finance the development of rental housing for low-income families. Under current law, there is a state-by-state limit on the annual amount of federal low-income housing tax credits that may be allocated by each state. The new law increases these limits.



11. Sets higher loan limits for GSE and FHA loans, and improves the mission of the GSEs. The Act sets the GSE loan limit base for single-family, one-unit properties at \$417,000 and raises the limit in high-cost areas, which include all areas where 115% of median home prices exceed \$417,000. In such areas, the GSE loan limit is the lower of 115% of the area's median home price or 150% of \$417,000, or \$625,000. Each year, the new GSE regulator will set the GSE loan limits based on home prices. The new GSE loan limits went into effect after the limits in the Economic Stimulus Act expired on December 31, 2008.

For the GSEs, the legislation tightens targeting requirements of the affordable housing goals, and rewrites those goals to ensure that the enterprises provide liquidity to both ownership and rental housing markets for low- and very-low-income families. The legislation also requires the enterprises to serve a variety of underserved markets, such as rural areas, manufactured housing, and the preservation market.

For the Federal Home Loan Banks (FHLBs), the legislation requires new affordable housing goals similar to those that apply to the enterprises for FHLB mortgage purchase programs. Treasury-certified Community Development Financial Institutions would become eligible to join FHLBs. Finally, the Act also increases the loan limit for FHA mortgage insurance for single-family, one-unit properties to the lower of 115% of the area median home price, as determined by HUD (but no lower than a floor of 65% of \$417,000), or 150% of \$417,000 (\$625,500). The mortgage amount cannot exceed 100% of the appraised value of the property.

12. Bars the FHA from charging higher insurance premiums to riskier borrowers. The new legislation places a moratorium on the use of risk-based pricing on FHA loan guarantees for one year. The moratorium begins Oct. 1, 2008 and ends Sept. 30, 2009. This new provision would force FHA to raise prices for all borrowers regardless of the credit risk of the borrower (although fees may vary based on other factors such as loan to value).

Congress is also allowing HUD to charge up-front premiums not to exceed 3% of the original insured principal obligation (not to exceed 2.75% with respect to first-time homebuyers who complete a counseling program). Finally, Congress is raising minimum down-payment requirements for FHA-backed loans to 3.5%. Beginning in October, home buyers may also continue to receive down-payment assistance from family members, but will no longer be able to rely on nonprofits that funnel money from homebuilders into seller-funded down-payment assistance programs.

13. Gives the Treasury Department immediate authority to extend an unlimited line of credit to Fannie Mae and Freddie Mac through December 2009, or to buy stock in those firms, to reassure investors that the firms will not fail. The new law also creates a strong and independent new regulator for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks, the housing government-sponsored enterprises (GSEs). The legislation gives this regulator broad new authority to ensure the safe and sound operations of the GSEs, including the power to:

- Establish capital standards.
- Establish prudential management standards, including internal controls, audits, risk management, and management of the portfolio.
- Enforce its orders through cease and desist authority, civil money penalties, and the authority to remove officers and directors.
- Restrict asset growth and capital distributions for undercapitalized institutions.
- Put a regulated entity into receivership.
- Review and approve (subject to notice and comment) new product offerings.

Impact of the Housing and Economic Recovery Act of 2008

According to its crafters, HERA represents the most comprehensive response yet to the American mortgage crisis; that is, it will help families facing foreclosure keep their homes, help other families avoid foreclosures in the future, and help the recovery of communities harmed by empty homes caught in the foreclosure process. House Financial Services Committee Chairman Barney Frank asserted that the new law represented a mutually reinforcing set of approaches that would begin to diminish housing's deep-rooted problems and lay the groundwork for a turnaround in the housing market and in the broader economy.

The new law also contains the most significant expansion and improvement of tax programs designed to provide affordable housing for low- and moderate-income individuals since 1986. It also increases volume limits on housing bonds to finance low-income rental housing and first-time home buyers, while also providing states with greater flexibility on how to use those bonds efficiently. These improvements are expected to address the shortage of affordable housing options in the country. Overall, the new law was expected to (a) help stabilize the housing market and home prices, (b) make it possible for everyone who responsibly owns a home to keep it, and (c) enable more Americans to purchase a home.

The new law also authorized the Treasury Department to extend an unlimited line of credit to Fannie Mae and Freddie Mac or to buy stock in those firms, in order to reassure investors that the firms will not fail. It gave the new regulator of Fannie Mae and Freddie Mac the power to put these two firms into receivership and to remove their officers and directors.

Indeed, on September 7, 2008, the Treasury Department used these newly acquired powers to seize control of Fannie Mae and Freddie Mac in order to stabilize the deeply distressed housing and financial markets. Up until that time, Fannie Mae and Freddie Mac had been funding more than two-thirds of U.S. home loans, and Treasury felt that doubts over their ability to continue was causing considerable turmoil in the economy.

The four-part rescue plan was set up as a conservatorship that was to be overseen by the Federal Housing Finance Agency. The rescue plan committed the government to provide upwards of \$100 billion in additional capital. Thus, the federal government stands ready to inject money if either Fannie Mae or Freddie Mac is found to have liabilities that exceed its assets, an assessment that is to be made on a quarterly basis. The government will be issued special 10%-yield preferred shares and receive warrants equating to 79.9% of the common shares of the two companies. As much as \$200 billion in Treasury support to the two companies was expected to be extended.

Initially, the federal government will buy \$5 billion worth of mortgage-backed securities, which will subsidize the purchase of homes by lowering mortgage interest rates. The government will also be receiving \$1 billion worth of preferred stock in each company that puts taxpayers' interests ahead of those of any other shareholders.⁸ Importantly, holders of debt in Fannie Mae and Freddie Mac, and of mortgages that they guarantee, are protected against losses by the rescue plan.

Fannie Mae and Freddie Mac also are expected to increase mortgage funding through the end of 2009 to help stabilize the housing and mortgage markets. However, starting in 2010, they will have to reduce the volume of mortgages they fund by 10% per year for about 10 years, to reduce the risk the companies pose to the financial system as a whole. By 2010, Congress is expected to restructure both mortgage firms.⁹

Housing industry experts expected these Treasury Department actions to calm the market, help restore confidence in the secondary mortgage market, stabilize the flow of capital, and protect taxpayers. They also hoped that in the short term, these actions would make mortgages more widely available and reduce the interest rates Americans pay on a new home loan. However, several housing experts were also concerned about Fannie Mae's and Freddie Mac's ability in the long term to fulfill their historic mission of promoting homeownership and affordability, which they hope would not be interrupted or curtailed.

The 2008 Financial Rescue Plan: The Emergency Economic Stabilization Act (EESA)

Almost immediately after the Federal government had taken control of Fannie Mae and Freddie Mac, the Administration radically proposed a \$700 billion financial rescue support plan for financial markets and institutions that would be implemented through the creation of a program that would buy troubled mortgage securities from Wall Street. In addition, the Treasury Department announced that Fannie Mae and Freddie Mac would be buying more mortgage-backed securities, and that it also would be expanding its own program to buy the same type of securities from U.S. financial institutions. The Federal government planned to buy \$10 billion in mortgage-backed securities in October, up from \$5 billion earlier in 2008.

These proposed actions were expected to ease the credit crunch that had been threatening the economy by restoring the flow of credit to it. In effect, these massive rescue efforts, if successful, would help stabilize mortgage interest rates and minimize the resulting impact of the housing market unrest on the general economy.

After much heated Congressional deliberation, on October 3, 2008, the House finally approved a \$700 billion financial rescue package. Known as the Emergency Economic Stabilization Act (EESA), the new law authorized Treasury Secretary Henry Paulson to spend up to \$700 billion to relieve faltering banks and other firms of bad assets backed by home mortgages, which had been falling into foreclosure at record rates.¹⁰

The plan gave the Treasury Department wide latitude to purchase any assets from any firms at any price, and added an insurance program for those security-backed mortgages that are not in complete distress. Significantly, the new law also:

- Added an array of tax breaks for families and businesses worth an additional \$107 billion.
- Provided a temporary increase in the cap on federal insurance for bank deposits from \$100,000 to \$250,000.
- Provided for the government to receive equity in companies it helps so that taxpayers get a share of future profits and government can recoup its investment in these firms. Firms that take federal cash must give the government warrants to buy stock so that taxpayers benefit if the firms return to profitability. However, if the program is in the red after five years, the new law required the President to offer a plan for recovering the outstanding balance from the financial services industry.
- Created an independent inspector general and a powerful oversight board to oversee the Treasury Department program.
- Allowed the Treasury Department to modify mortgage terms to help homeowners avoid foreclosure. This provision, if successfully implemented, would help solve a lot of problems in the hardest-hit housing markets, where prices have continued to fall.¹¹

After the \$700 billion Troubled Asset Relief Program had been approved, the Administration dramatically changed the course of its implementation, earmarking most

of the initial \$350 billion authorization to buy preferred stock in banks rather than mortgage-backed securities. According to the Treasury Department, banks had been reluctant to loan each other money, and the funds were therefore intended to more quickly restore the flow of credit in the economy.

The Treasury Department also planned to ask Congress for a second installment of \$100 billion to help financial entities that make loans to consumers such as student loans. However, this left open the question of whether taking this new direction would end up limiting the ability of the federal government to have greater influence in preventing foreclosures through workouts and loan modifications for troubled borrowers.¹²

During the Presidential campaign, President Barack Obama himself expressed support for allowing bankruptcy court modifications. Bankruptcy reform that would allow loan modifications is viewed by many housing experts as the ultimate solution to prevent an optimum number of people from losing their homes if streamlined or standardized loan modifications alone are not carried out in sufficient numbers by lenders and do not include loan balance reductions. Under bankruptcy, bankruptcy judges can reduce a mortgage loan's principal and interest rate.

Paramount Need to Prevent Foreclosures

To prevent foreclosures effectively, three major challenges remain:

- (1) Developing an effective legal mechanism through which servicers can sell mortgage loans out of pools or restructure them in place.
- (2) Determining the true economic value or hold-to-maturity value of mortgages and mortgage-backed securities based on the best available current data.
- (3) Determining the most effective and expeditious way to modify loans or workouts for troubled borrowers.

In the case of estimating the value of mortgages, Fannie Mae has already developed a model that is able to project payments and proceeds from foreclosures and to calculate the property's present value. Other similar models show that they do quite a good job of projecting defaults for prime and subprime loans, given changes in property values.¹³

In the case of loan modifications, in December 2008 the Federal Housing Finance Agency began backing troubled borrowers with Fannie Mae or Freddie Mac mortgages to be eligible for new loans that do not exceed 38% of their gross monthly income. Such loan modifications largely emulate the earlier program that had been initiated by the Federal Deposit Corporation (FDIC) to help delinquent borrowers with IndyMac loans.

FDIC itself, through the leadership of Chairman Sheila Bair, had by November 2008 directly proposed providing additional incentives in order to encourage industry participation in maximizing loan modifications. Under FDIC's new proposal, loan modifications would be less expensive for lenders because the government would pick up part of the cost. In addition, loan servicers would be paid \$1,000 to cover expenses for

each loan modified. Borrowers who have missed at least two monthly payments would be eligible for a reduction in their payment. The new payment would require that they spend no more than 31% of their monthly income. In exchange, mortgage companies would be guaranteed that if the borrower falls behind on the new monthly payments and the lender ends up losing money on the loan, the federal government will cover half the loss, in most cases.¹⁴



The FDIC program focuses on the alternative and subprime loans that are at the root of the housing crisis, and offers borrowers deeper cuts in monthly payments. FDIC estimates that about 4.4 million borrowers with such loans will be at least two months late on their payments by the end of 2009. It estimates that half those borrowers, or about 2.2 million people, would have their loans modified, and that about 1.5 million will successfully avoid foreclosure.¹⁵

Under the terms of the FDIC program, lenders would reduce monthly payments primarily by cutting the borrower's interest rate to a minimum rate of 3%. If necessary, the company could also extend the repayment period on the loan beyond 30 years, reducing each monthly payment. In some cases, companies could defer repayment of some principal. The borrower would still be responsible for the full value of the loan. FDIC's program is limited to loans secured by owner-occupied properties. The government would also not cover losses on loans where the modification did not lower the monthly payment by at least 10%.¹⁶

Former HUD Secretary Henry Cisneros agrees with FDIC Chairman, Sheila Bair, that a comprehensive national foreclosure plan is needed. According to Secretary Cisneros, such a plan should contain guarantees so that mortgages can be reworked to offer longer terms, lower interest rates, or even defer payments on portion of the principal. To supplement such a program, Secretary Cisneros recommends that a modern Home Owners Loan Corporation should be used to recapitalize, restructure, and temporarily warehouse adjustable rate loans that the FDIC proposal is unable to reach. He also believes that modifications to bankruptcy procedures that allow judges to use discretion in structuring workouts are equally important.

In summary, loans in danger of foreclosure need to be modified in a way that returns them to good standing and keeps them there. This can be achieved if government can, for example, successfully encourage servicers and investors to mark down loan balances to 90 percent of current market value by contributing to the markdowns, and by

guaranteeing timely payment of principal and interest on modified loans. Eliminating negative equity on modified loans would lower payments and prod borrowers to remain in their homes, which would in turn reduce the incidence of re-defaults.¹⁷

According to Professor Jack Guttentag, a national mortgage expert, the government outlays required to support balance write-downs would be large, but can be secured by second liens, which borrowers would be obliged to repay in the future. In this way, the government would be able to recover some (if not all) of the outlays.

Professor Guttentag also recommends having the government encourage private mortgage insurers (PMIs) to underwrite and provide payment insurance on modified loans by offering to share losses with the PMIs. In addition, the payment insurance would carry full faith and credit back-up insurance by the Government National Mortgage Association (GNMA), which would make it highly desirable to investors. Finally, payment insurance supported by GNMA would make modified loans marketable, and shift some of the workload in processing modifications from understaffed servicers to PMIs. GNMA would receive a piece of the insurance premiums, which should make this part of the program self-supporting or even profitable for the government.¹⁸

The Final Push: President Obama's Homeowner Affordability and Stability Plan

On March 4, 2009, President Obama launched a national plan intended to provide more than \$75 billion to help an estimated 9 million families restructure or refinance their mortgages in order to avoid foreclosure.

The plan includes two initiatives: a refinancing program aimed at homeowners who have less than 20 percent equity in their home or who owe more than their home is worth, but are current on their loans. The other program is aimed at helping borrowers avert foreclosure by lowering their monthly payments to affordable levels. Under this program, homeowners with loans as large as \$729,750 can cut their interest rates temporarily to as low as 2 percent. To lower homeowners' debt obligations further, the Administration also plans to add incentives to persuade lenders that hold second mortgages to give up their claims.

Because the programs apply to mortgages worth up to \$729,750 throughout the country, more borrowers can be helped. However, the program does not require lenders to cut the principal that homeowners owe to current values, a step advocated by non-profit groups but opposed by most lenders.¹⁹ Until home prices begin to go up again, the inability to help responsible borrowers who are trapped in mortgages that have balances that are higher than the value of their homes will continue to be a problem. The resulting rapid growth in the nation's housing inventory will therefore require successful government actions that will not only avert more foreclosures but also spur home sales.

The refinancing portion of the government program is expected to help reduce mortgage payments for up to 5 million homeowners. It is limited to loans owned or financed by Fannie Mae and Freddie Mac. Owners who have been shut out of the refinancing boom because they have little or no home equity will be able to secure lower rates as long as the first mortgage on their home does not exceed 105 percent of their property's current value and they are current on their mortgage. Simply stated that means that borrowers who owe up to 5 percent more than their home is worth can qualify. *In July 2009,*

the program was opened up to borrowers whose mortgage debt is up to 125 percent of their home value, thus providing relief to more borrowers.

The loan-modification program is limited to loans issued on or before Jan. 1, 2009 and expires in 2012. Lenders that modify troubled loans are eligible for thousands of dollars in incentive payments, including bonuses for reaching homeowners before they become delinquent. Under the program, lenders are encouraged to lower homeowners' payments to 31 percent of their income. That could come from lowering the interest rate to as little as 2 percent, then extending the terms of the loan up to 40 years, and if the combined interest rate reduction and increased loan length are insufficient to lowering the payments to 31% of their income, lenders can also lower the principal owed by the borrower or stop charging interest on a portion of the loan, with no repayment of it until sale, refinancing, or full payoff of the interest bearing account. To be eligible for the program, the home must be owner-occupied, and the principal balance cannot exceed \$729,750. Importantly, the program first requires the borrower to document income and the current monthly payments.

Borrowers can only modify their loans one time and must prove they have a financial hardship. Borrowers burdened by financial hardship include those who are current on their loans but fear that they will fall behind soon because they face an interest rate increase or some other economic setback that could shortly push them into delinquency. Finally, the Administration is extending the government incentive payments to lenders that use Hope for Homeowners, a government program to refinance troubled borrowers into affordable mortgages. It is also developing a program to provide partial payments to holders of second mortgages, known as second liens, to encourage them to extinguish that debt.

On top of these initiatives, the President's stimulus package enacted earlier in 2009 instituted a new and improved home buyer tax credit. The new credit was increased to \$8,000, applies for the year 2009, can be used as part of a down payment on an FHA loan, and -- more important -- does not require repayment. Other sections of the stimulus package provide the following additional benefits: an increase in the maximum mortgage amounts permitted for funding, up to \$729,750 in the most expensive markets in the country; substantial increases and extensions for tax credits to stimulate energy-efficient improvements in existing homes; and, \$2 billion in additional funds for local governments and nonprofit groups to enable them to acquire and renovate foreclosed and vacant dwellings that are continuing to depress property values and raise crime rates in neighborhoods hit hard by the housing crisis.²⁰

In summary, the President's housing initiatives and standardized loan modifications that include uniform procedures for documenting income and setting up a web site to accept all applications must be fully supported and adequately staffed and financed, if we are successfully to stem the tide of foreclosures and rapidly growing housing inventory that have been holding back the housing market. Nothing less than the future of the American economy is at stake.

Conclusions

In 1970, one of the worst tornadoes in Texas history struck the city of Lubbock. The tornado destroyed thousands of homes, including the homes of Hispanics who resided in Lubbock's downtown area. Ironically, the disaster led the federal government into channeling and providing better housing for disaster victims who had lost their old and dilapidated housing units.

A similar result but on a much wider scale could occur through the enactment and successful implementation of new and historic legislation. Ordinarily, many communities do not benefit from existing government programs because few outreach mechanisms exist to assist them effectively. When successfully implemented, disaster relief provides not only new forms of housing assistance but also puts to work existing program services that previously were insufficiently tapped.

In summary, it has taken an unprecedented financial disaster to prod government into taking the necessary steps to turn the housing sector around. Fortunately, some of the major policy recommendations that are delineated in this book and are needed to bring this about are part of the new legislation, and are already being carried out.

Nevertheless, if any new legislation or Presidential initiative is to be successfully implemented, the government must fulfill every major provision properly and assertively. Indeed, the billions of dollars provided through these new laws and initiatives, with thousands of households to be counseled or assisted and thousands of housing units to be built or rehabilitated, will prove to be far-reaching only if these funds are appropriately expended (a) for the benefit of troubled borrowers and communities that deserve assistance, especially through the use of prompt and viable loan modification plans for troubled borrowers; (b) to stabilize communities most directly affected by foreclosures; and (c) to spur home sales and revitalize the entire housing sector.

As confidence and financial solvency and liquidity improve in the nation's capital markets, continued pent-up demand for housing and overall credit can be expected to bring about the resurgence of housing. At the same time, improved housing affordability as prices reach bottom should further accelerate the recovery of housing and the general economy.

Impact of Foreclosures on Hispanics

Many distressed Hispanic borrowers, especially those who have lost their jobs, cannot be helped effectively even with loan modifications; others, however, who were improperly put in bad loans and are delinquent or in danger of being so, can be helped substantially through loan modifications or refinancing since they would then most likely be financially capable of repaying their loans.

There are also thousands of Hispanic borrowers who continue to work hard, make payments, and are not late. They work as many hours or jobs as necessary to meet their financial obligations, particularly their house payments. They may also be the victims of predatory loans but because they are not late in their payments, they do not qualify for the loan modification programs available. The President and Congress must therefore do everything possible to ensure that loan modification and refinancing programs are

fully inclusive and open to families who are not late in their payments and were victims of inappropriate loans.

The greatest challenge in carrying out loan modifications successfully remains getting in touch with the borrowers, especially minority borrowers, and communicating in a way that is culturally sensitive in order to get the best results for both lenders and borrowers. A fair and streamlined process is a great step forward but it alone will not get the desired results without an appropriate strategy to get the right message to the people who deserve and need the help most.

Although most servicers claim otherwise, many have lacked the capacity to train enough staff to do loan modifications systematically, effectively, and extensively. In addition, lenders hesitate in offering loan modifications to about 30% of all troubled borrowers who are known to be able eventually to pay their mortgages on their own without a loan modification. Another 20% of all troubled borrowers are expected to fall behind their payments even after receiving a modified loan and will in due course lose their homes. Lenders in particular do not want to help these borrowers because delays in an ultimate foreclosure can be costly as home prices continue to decline and the conditions of their homes deteriorate if they are not maintaining them.²¹

As a result of all these uncertainties and shortcomings, the number of preventable foreclosures is proving to be less than originally expected to result from all government and housing industry foreclosure-prevention and loss-mitigation initiatives.²² Accordingly, more aggressive action is needed to modify a greater number of loans successfully, including legislation that would allow bankruptcy judges to use discretion in structuring workouts.

Resolving America's housing crisis will not be easy or take place immediately. The housing industry will soon be readily addressing the homeownership needs of all echo boomers, the next dominant generation of Americans. It must, however, also continue to target minority groups, immigrants, and other types of financially viable households who are also specifically emerging in the 21st century as vital homeownership markets. In addition, financial institutions must now be fully committed to increasing their market share the right way – by making loans properly and transparently, and offering homebuyer education and counseling, reasonable loan terms and conditions, affordable down-payments, and financial assistance for eligible first-time homebuyers. It will and must be a win-win situation, one that will benefit all Americans, the housing sector, and the nation's economy.

Chapter Three

Revitalizing America's Housing

Home. It is the foundation upon which all of us build our lives, raise our children and plan for our futures. It's the building block with which we forge neighborhood and put down roots.

If the crisis we find ourselves in today has taught us anything, it is that home is an essential source of stability -- for our families, our communities and our country.

Shaun Donovan, HUD Secretary

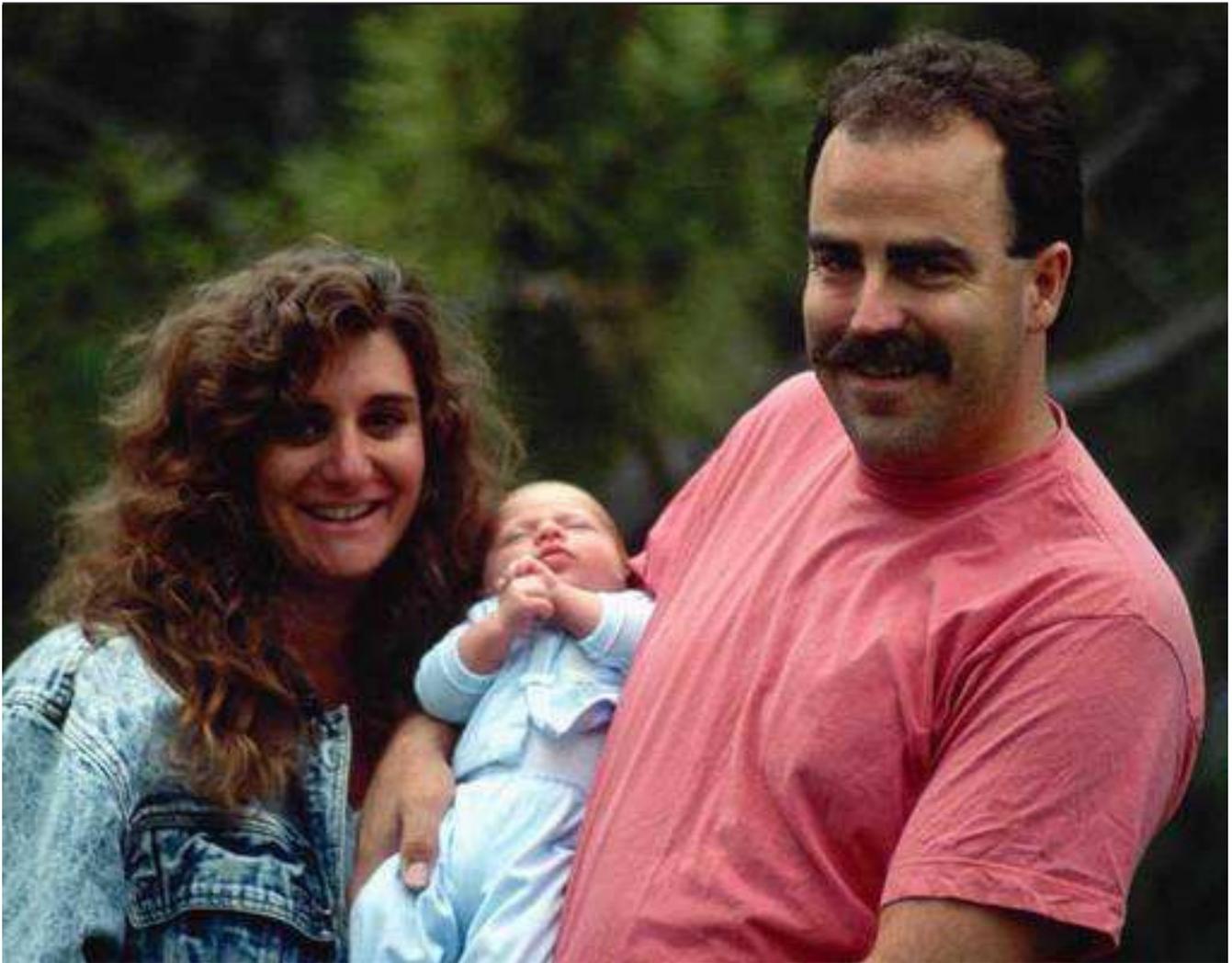
Most Americans seek to build long-term assets and increase their financial worth through homeownership. Furthermore, homeownership strengthens neighborhoods by increasing stability, keeping capital in the community, attracting outside investment, and raising property values.¹ According to the National Association of Realtors, homeownership is now the major portion of the total wealth of 75% of the nation's homeowners, thus representing the single largest component of non-pension wealth in the United States. The growth of equity provides homeowners with access to cash for emergencies and for important endeavors such as their children's education and starting a small business. For Hispanics, a home is a source of pride and accomplishment and something of value and significance to leave one's children.²

Currently, 61% of the net wealth of Hispanics is made up of their home equity. For millions of Hispanics, homeownership is the primary way to accumulate wealth and net worth.

Pivotal Engine for Revitalizing America's Housing Sector

Clearly, Hispanic homeownership can be a stimulus for America's housing renewal and a pivotal engine for its continued growth. For nearly two decades, the rate of Hispanic homeownership has been rapidly increasing. During the 1990's, the percentage of Hispanics owning a home rose from 42% to 48%. This was the fastest rate of increase for any population segment in the country. In 2007, the highest rate of homeownership among Latinos was recorded at 50.1% in both the first and third quarters of that year. Much of this growth has come from immigrant households who have spurred the demand for starter homes. As of 2005, 61% of foreign-born Hispanics who are naturalized citizens owned their homes. Moreover, the biggest gains in Hispanic homeownership were in immigrant gateway states with large Mexican populations, like Texas, California and New Mexico.

The rate of Hispanic homeownership (49%) continues to lag significantly behind that of non-Hispanic whites (75%) in spite of significant gains over the past decade. The gap in homeownership rates stems in part from gaps in income levels. In 2001 according to US Census data, 73.6% of Latino year-round workers earned less than \$35,000, compared to 46.1% of non-Latino workers. In 2007 the median household income for Hispanics was \$38,700, 30% lower than the \$54,900 median household income for non-Hispanic



Whites. Thus, for more Latinos to be able to become homeowners, their incomes have to continue to increase in order to keep pace with the price of homes. Fortunately, as home prices continue to decrease in several areas of the country, more Latinos will be able to afford buying a home.

Homeownership plays a significant role in a Latino family's first step to accumulating wealth. Accordingly, access to an adequate supply of affordable housing represents a significant need for the growing Latino population. Between 1995 and 2005, nearly five million new Hispanic households were created throughout the United States, an increase of 57%. This rapid growth is in contrast to only a 10% increase for all other non-Hispanic households.

Population and Age Characteristics

As of 2008, the Hispanic population of the United States was estimated at 46.9 million, making people of Hispanic origin the nation's largest ethnic or race minority. Hispanics now account for more than 15% of the U.S. population. They also accounted for half of the U.S. population gains between 2000 and 2008.

More significant, Hispanics now represent an increasing portion of the age group where most home sales occur – 26 to 46 years of age. In 2006, the Hispanic population was much younger, with a median age of 27.4 compared with the population as a whole at 36.4. Hispanics are (conservatively) expected to reach approximately 48 million by the year 2010 and make up more than 16% of the total US population. In the next few years, Hispanic families will account for well over 30% of household growth in the country. According to the Pew Research Center, nearly one out of every three people in the U.S. will be Hispanic by 2050. The Center expects Hispanics to account for 60 percent of the nation's population growth over the next four decades.

Economic Trends

Until recently, economic trends had projected better homeownership opportunities for Latinos in the near future. Immigrant households had also been driving demographic change throughout the country and spurring the growing demand for housing, especially for starter homes. As indicated earlier, 61% of foreign-born Hispanics who are naturalized citizens owned their homes in 2005. Furthermore, the largest housing gains among the Latino community were in immigrant gateway states with large Mexican populations (Texas, California and New Mexico).

More important, from 1995 to 2001, Hispanic median income grew 27% while the growth rate for the general population was only 7%. A study by the Tomas Rivera Policy Institute revealed that the Hispanic middle class grew by almost 80% in the 1980s and 1990s – three times the rate of increase of the overall middle class. The same study also shows that over 12 million Hispanics are now part of the middle class.³

In addition, Hispanic households earning more than \$100,000 per year have grown by 125% to 3.7 million.⁴ Today, nearly 40% of all Hispanic households (3.9 million) earn more than \$40,000.⁵ The economic progress achieved by Hispanics has been substantial. According to the U.S. Census Bureau, the poverty rate of Hispanics has dropped by a third from its high 12 years ago, falling from 30.7% in 1994 to 20.6% in 2006. Census data also show that between 1994 and 2007, median Hispanic household income rose 20 percent, from \$31,500 a year to \$38,700 a year.

As a result of these income gains and increased lending activities by the home mortgage industry, the number of mortgage loans made to Hispanic homebuyers increased from 157,434 to 528,529 between 1993 and 2003. This growth represented an unprecedented 236% increase in ten years, the highest for any racial and ethnic group in the United States.⁶ According to Genworth Financial, Inc., by 2005 the number of mortgage loans made to Latino households, including both conventional and government purchase and refinancing loans, had dramatically increased to 1.4 million.⁷

In 2007, Hispanic purchasing power surged to \$863 billion. It has grown substantially as a result of population growth, a strong work ethic, and gains in education and income.

HispanTelligence projects that by 2010 the purchasing power of Hispanics will reach \$1 trillion.⁸ Hispanics currently represent nearly 9 percent of U.S. buying power. Given the exponential growth in Hispanic purchasing power, NAHREP projects that from 2002 to 2012, 40% of first time homebuyers in the U.S. will be Hispanics.



Best Practice: Using Effective Outreach and Counseling to Increase Hispanic Homeownership

In 2004 Freddie Mac launched En su Casa Denver, an initiative designed to lift the homeownership rate for Latinos in Denver. The initiative was intended to help Latino families overcome the most common barriers to homeownership including the lack of bilingual information about buying a home, language and cultural barriers, and a lack of credit history or impaired credit history. By 2005 Freddie Mac had invested nearly \$30 million in mortgages, helping nearly 185,000 families to become homeowners.

The initiative brings together the counseling and outreach expertise of the National Council of La Raza, the Del Norte Community Development Corporation, the NEWSED Development Corporation, the Southwest Improvement Council, and NAHREP with the financial strength of Wells Fargo Home Mortgage and other local banks. The local nonprofit housing organizations use Freddie Mac's Counselor Max – a powerful web-based technology tool – to streamline the counseling process and increase the number of consumers on the path to homeownership.

Part of the process involves linking homebuyers to NAHREP bilingual real estate agents. The use of Counselor Max enables counselors to quickly analyze an individual's qualifications and match him or her with the most affordable loan products and services offered by Wells Fargo, U.S. Bank, and Colorado State Bank and Trust.

Chapter Four

Benefits of Homeownership

What we do is not just housing. It is the passion and compassion for the human spirit; the sincere belief that families and individuals – with the right support – can change their lives every day. It is our mission to do just that; all of the other work: finding funding support, the education, the counseling, the public-private partnerships; the collaborative efforts – they are details.

We make a difference because we believe in the human spirit; we believe in the hearts of people; and we have the faith that we are here on this earth to make a difference in other people's lives.

*John R. Smith
President and CEO, Housing Our Communities**

Since 1934, the primary objective of national housing policy has been “to reaffirm the long-established commitment to decent, safe, and sanitary housing for every American.” The pursuit of homeownership as part of this policy is important because homeownership has long been considered the cornerstone of the American dream and the first step towards the creation of wealth.

Furthermore, homeownership plays a significant role in enhancing community, family, and individual well being. New homeowners cherish the feeling of living in a house they can call their own, a home where they can feel rooted, raise a family, build a vibrant community, and have a better future. Hispanics in particular associate owning a home with a personal and collective strong sense of security, independence and achievement. As prospective homeowners, they envision themselves becoming free of the restrictions and poor living conditions they often associate with rental housing. Since 2004, such aspirations have helped to account for a higher rate of growth in the number of Hispanic homeowners than of Hispanic renters.¹

The objective of providing affordable, decent, and appealing rental housing is nonetheless equally important. While many individuals simply choose not to become homeowners, others cannot afford or are not ready to buy a home because they have lower incomes or have not established credit, lack affordable housing in their communities, or lack access to information about homeownership assistance programs that are available. However, for millions of Americans who are ready to buy and keep a home, there are many social and economic benefits.

Social and Economic Benefits

In 2002, the Institute for Policy Studies at Johns Hopkins University conducted a study entitled “Homeownership: Does it Buffer the Effects of Distressed Neighborhoods on Children?”

* Housing Our Communities, a nonprofit housing organization based in Phoenix, AZ and Las Vegas, NV, has over the past several years successfully used various homeownership assistance programs. In spite of the high rates of foreclosure in Arizona and Nevada, Housing our Communities managed to produce 198 first-time homebuyers from October 1, 2007 through September 30, 2008. It has experienced only four foreclosures since 1988 and none over the last five years.

The study found a strong link between homeownership and the well being of children.² It concluded that children who live in homes owned by their families are more likely to achieve higher levels of educational attainment and earnings, and have a lower incidence of teen pregnancy and welfare dependence.

Also in 2002, a HUD study entitled “Economic Benefits of Increasing Minority Homeownership,” found that in addition to fueling economic growth, the economic benefits of minority homeownership include building equity for home buyers, creating jobs in the residential construction and remodeling industry, and increasing sales in home improvement and other housing related goods and services.³ The HUD report concluded that the weight of recent empirical evidence on homeownership strongly suggests that homeownership provides several other benefits to communities.



These benefits include improved outcomes for children, better maintenance of homes, greater neighborhood stability, increased savings and wealth, a better sense of comfort and security, and increased civic involvement. A recent study similarly showed that children of homeowners outperformed children of renters on math tests by 9% and on reading tests by 7%, with other factors held constant.⁴

In 2006, another HUD study also found that for Hispanics a move to homeownership is associated with significant increases in housing and neighborhood satisfaction. The study concluded that while owners from all racial/ethnic groups have higher levels of satisfaction than renters, the difference in satisfaction between owners and renters is largest for low-income Hispanics. According to HUD, homeowners are more likely than renters to participate in local organizations, engage in informal forms of social interaction, develop stronger commitment to their communities, maintain their homes in good condition, stay in their local areas for longer periods of time, and display a higher sense of well-being.⁵ Overall, homeownership has traditionally represented unquestionable value to American society.

For most Hispanics, as well as for most Americans, homeownership is both an end in itself - a source of pride and possession of value - and a means to an end, that end being a better living standard, a greater sense of safety and security, and ultimately an improved educational and economic status. In spite of the housing crisis, there are now more opportunities to help make homeownership for Hispanics the foundation for a better life and a better tomorrow.

Financial Benefits

Hispanics accumulate wealth and net worth primarily through homeownership.

According to Pew Hispanic Center data, the aggregate net worth of the U.S. Hispanic population was calculated to be \$945 billion in 2006, a 111% increase from 1996. Over this time period, two forces drove the increase: a 58% increase in the number of Hispanic households and a 34% increase in average net worth resulting from rapid growth in Hispanic homeownership.⁶ For non-Hispanic Whites, the increase in aggregate net worth was only 72.8% over the same time period. Presently, 61% of the net wealth of Hispanics is made up of their home equity.

Homeownership is also often the primary catalyst for a positive economic cycle for Hispanic families and communities. This cycle begins with Hispanics moving to areas that offer better paying jobs, and buying higher valued homes that continue to increase in value over time, thus accumulating equity and wealth in the process. Such steady growth in wealth leads to greater improvement in living conditions which, in turn, provides the flexibility and capacity needed for Latinos to move to areas that offer better paying jobs and higher-valued homes. Ultimately, the greatest benefit of homeownership is the legacy of financial stability it creates for homeowners and their children. In sum, homeownership is the cornerstone of Hispanic wealth.

A homeownership study conducted by the Congressional Hispanic Caucus Institute in 2005 cited California's 16th Congressional District as an excellent example of this positive cycle. The District consists of about two thirds of San Jose and includes the heavily Mexican American areas to the east. Historically, this positive social and economic cycle began with the presence of Mexican American farm workers many years ago, followed by immigrants from other parts of Central and Latin America. Today, the District's traditional agriculture, manufacturing, and new high-tech businesses strongly sustain its economy.

As of 2000, Hispanics in this District represented 38% of the total population and had achieved a 64% rate of homeownership. Their median household income was relatively high at \$76,200 and the median home value of their homes was \$313,000. The accumulation of equity is obvious as more than half of the Hispanic homeowners in the District owned homes that more than eight years ago were already worth more than \$300,000.

Other cities where both the household income of Hispanics and the home value of their homes are still relatively high include Orange County, CA, San Francisco, CA, Middlesex, NJ, and Nassau County, NY.⁷ As indicated earlier, housing appreciation rates in the five years prior to the "subprime" crisis had increased phenomenally in five of the most popular places for Hispanic homeownership in the United States: 142% in Riverside, CA, 136 percent in Los Angeles, 133 percent in Miami, 97 percent in Phoenix, and 51 percent in Chicago. In addition, as of the second quarter of 2007, median home prices were still \$397,000 in Riverside, CA, \$384,000 in Miami, \$265,000 in Phoenix, \$283,000 in Chicago, and \$593,000 in Los Angeles.⁸ In summary, in spite of the foreclosure crisis, homeownership continues to preserve considerable wealth for millions of successful Hispanic homeowners.



Best Practice: Coordination of Public and Private Housing Resources and Services

The Congressional Hispanic Caucus Institute's HOGAR Initiative organized "Celebrating Homeownership, the Process and the Partnerships" events which showcase partner organizations that effectively leverage loan products and financial assistance programs. In 2004 one such event was held in Las Vegas, NV where Housing for Nevada (HFN), a nonprofit housing organization, helped leverage its resources through a pledge of contributions from the Nevada Mortgage Bankers Association and other funding sources.

Subsequent to this event, HFN received a \$417,000 HOME grant from HUD to assist new homeowners and a commitment of \$2.4 million in mortgages from local banks. HFN also received a \$10,000 grant from State Farm for home buyer education and a \$70,000 WISH grant from the Federal Home Loan Bank to help match the savings of new homeowners. This was the first WISH grant ever awarded in the state of Nevada.

The influx of all this increased funding demonstrates the effective leveraging of resources that results when partnerships are cemented, recognized and enhanced as the HOGAR Initiative's event did in Las Vegas. Since this event two years ago, HFN has helped 180 new homeowners and counseled 1,487 prospective home buyers. HFN has recently changed its name to Housing Our Communities to reflect vastly expanded and new operations in Flagstaff and Rio Rico, AZ, Reno and Carson City, NV as well as in Colorado and Utah. Similar Best Practices are described throughout this book and in CHCI's HOGAR Best Practices Brief at www.chci.org.

Chapter Five

Demographics and Economic Trends

The underlying demand for new housing units has received support from an expanding population, in part resulting from high levels of immigration.

*Alan Greenspan, Former Federal Reserve Chairman
November 2001*

Hispanics in the U.S. are not a single homogeneous group, but rather an increasingly diverse community. They come from many different countries and differ across many demographic and socio-economic characteristics. Many Hispanics are born abroad, and some of them have arrived in this country just recently; others are native-born citizens and have lived in the U.S. for generations. The different nationalities and tenure in the U.S. are reflected, in turn, in differences in their English-speaking skills, citizenship status, demographic characteristics, socio-economic conditions, and geographic location.¹

Hispanic households are heavily concentrated in the South and West, particularly in California, Texas, New Mexico, and Arizona, and in some major metropolitan areas in the Northeast and Midwest. Latinos, however, are now growing rapidly in practically every region in the country. Although most Hispanics live in predominantly urban areas, a substantial number of them reside in rural areas, especially farm workers and residents living in colonias along the U.S. Mexico border region. Colonias consist of both incorporated and unincorporated communities that are characterized by unsafe substandard housing, unpaved roads, and insufficient water and sewer services.

Housing Conditions

On a national level, a recent HUD study found a number of significant differences in housing between Hispanic, African-American, and White households. Hispanic households were found to be substantially more crowded than both White and African-American households. Furthermore, the study found that major structural problems and interior deterioration (e.g., cracks in wall, holes in floor) appear to be worse for both Hispanics and African-Americans as compared to Whites. Likewise, in terms of neighborhood quality, the perception of crime and inadequate police protection is worse for both minority groups as compared to Whites. Finally, Hispanic households were found to be more likely to have unsafe drinking water and poor quality heating than Black or White households.²

Population

In terms of population growth, Hispanics are now the largest minority group in the U.S. There are presently 46.9 million Hispanics in the country. If the population of

Puerto Rico (4 million U.S. citizens) and the number of undocumented Hispanic immigrants (around 10 million) are added, the actual number of Hispanics in the U.S. is well over 50 million.

In the next few years, the U.S. Census estimates that Hispanic families will account for over 30% of the total household growth in the country. Such household growth will be characterized by a larger portion of younger and foreign born people than was originally estimated.³ Today, Hispanics represent an increasing number of the age group where most home sales occur – 26 to 46 years of age. Hispanics are also more likely to be married with children (38%) than non-Hispanics (23%) have larger households, and nearly 25% of them live in a household with five or more people in contrast to fewer than 8% of non-Hispanic Whites living in a household equally as large. Such population growth factors provide strong incentives for buying a home.

Trends in Hispanic Migration

Today, many Hispanics are migrating to areas where large numbers of Hispanics already reside and where more affordable housing and better paying jobs are available. Hispanics are moving from U.S.-Mexico border communities, transitional communities in the Southwest and Midwest, or directly from areas of origin (including the Caribbean, Central and South America) to pursue jobs in cities that already have growing Latino populations like Chicago, IL; Miami, FL; and Los Angeles, CA or in cities that offer promising job opportunities and better living conditions like Las Vegas, NV and Durham, NC.

According to Professor William Frey, a demographics expert from the University of Michigan, the patterns of immigration and domestic migration historically followed by Hispanics have been driven by both tradition and U.S. immigration laws that emphasize family reunification.⁴ Communities that earlier generations of Hispanic immigrants and migrants settled in developed their own ethnic cultures, making them natural magnets for later generations of Hispanic newcomers.

As a result of these migration patterns, 54% of the Hispanic population today resides in 10 traditional immigrant magnet metropolitan areas – Boston, MA; Chicago, IL; Dallas-Fort Worth, TX; Houston, TX; Los Angeles, CA; Miami, FL; New York, NY; San Diego, CA; San Francisco, CA; and Washington, D.C. During the past several years, Hispanics began migrating to different parts of the country, especially the South and Western states in search of better jobs and affordable housing opportunities.

Migration Trends and Homeownership

According to George J. Borjas, a Harvard University Public Policy Professor, Census data show that a statistically significant positive relationship exists between the probability of homeownership and the relative size of an ethnic enclave in a metropolitan area. His study, “Homeownership in the Immigration Population,” found that the growth of ethnic enclaves in major American cities has played an important part in increasing immigrant demand for owner-occupied housing in many metropolitan areas.⁵

Borjas’ findings help to explain why more Hispanics are moving to areas with

growing Hispanic populations in search of better-paying jobs, improved housing opportunities, and familiar amenities such as ethnic food stores and restaurants. According to Borjas, once an immigrant group reaches a significant size, the housing markets and mortgage finance systems become more accessible as institutions recognize and adjust to meet the needs of the growing market.

Borjas suggests that the “warm embrace” of the enclave helps immigrants escape the discrimination that they might otherwise encounter in the labor and housing markets outside the enclave. According to Borjas, clustering actually improves economic opportunities for immigrant families within the enclave. In turn, the improvements in housing amenities and economic opportunities that occur in ethnic enclaves will increase the demand for owner-occupied housing within them.

On the other hand, in high-cost cities such as Los Angeles, CA and Miami, FL, geographic clustering can have adverse economic effects. According to Borjas, an ethnic enclave can create incentives for immigrants not to acquire the skills that might be useful in the larger national market. In this case, clustering hinders the move to better-paying jobs and more affordable housing opportunities elsewhere by reducing the immigrants’ incentive to learn the culture and language of the American labor market. Borjas concludes that these adverse economic effects tend to reduce the income of families living in the enclaves, thus lowering their demand for owner-occupied housing. According to HUD’s homeownership studies, another negative aspect of ethnic enclaves is that they too may reinforce attachments to these neighborhoods, which may have inferior housing, substandard schools, and decrease the motivation for integration and mobility.



According to another study entitled “From Homeland to a Home: Immigrants and Homeownership in Urban America” by Demetrios Papademetriou and Brian Ray, many “gateway cities” (like Los Angeles, CA, and Miami, FL) that continue to have large ethnic enclaves have been high-cost housing areas until recently.⁶ As more members of the ethnic group move into these cities to take advantage of job opportunities or proximity to family members and friends, this population growth creates heightened competition in the job market and higher housing costs. This combination of scarce jobs and costlier housing makes it increasingly difficult for low- and moderate-income families to find affordable homes. Fortunately, as home prices continue to decline in several parts of the country, Hispanics earning good wages will experience improved opportunities for owning a home in previously high-cost housing cities such as Boston, MA, Las Vegas, NV, Los Angeles, CA, Miami, FL, New York, NY, Phoenix, AZ, and Washington, DC.⁷

Finally, the Papademetriou study found that non-traditional “gateway cities” with a rapidly growing Hispanic population such as Atlanta, GA, Birmingham, AL, Columbus, OH, Durham, NC, and Nashville, TN tend to offer better job and living conditions. In these communities, geographic clustering may actually help groups of immigrants circumvent any barriers they might otherwise encounter in the labor and housing markets outside these areas. Borjas concludes that Hispanics may choose to live in these communities primarily because of the large number of Hispanics already there who can provide invaluable information about job and other economic opportunities. Borja also infers that Latinos move to these communities because they strongly believe that a high probability of homeownership exists there.

The Congressional Hispanic Caucus Institute (CHCI) homeownership focus group study similarly found that the growth of the Hispanic population in these non-traditional gateway cities has been followed by the presence of a growing number of bilingual and culturally-sensitive housing professionals. Such housing professionals often provide prospective Hispanic homebuyers with the information and assistance they need to buy a home successfully.⁸

Both the CHCI and the Papademetriou studies support the notion that the success of many Hispanics in becoming homeowners in new immigrant gateway cities is due to:

- (1) The availability of information and assistance for Spanish-speaking prospective homebuyers.
- (2) The willingness of mortgage lenders to provide financing to immigrants based on past positive experiences with the community.
- (3) The availability of affordable owner-occupied housing.

Finally, a 2006 HUD study found that “the presence of weak English-speaking Hispanic homeowners” in a community could signal the presence of local programs that help achieve homeownership among Hispanic households with limited English-language skills. Furthermore, weak English-speaking homeowners may provide powerful role model effects and thereby encourage homeownership among other Hispanic families. According to HUD, programs that are designed specifically to educate homeownership

among weak English-speaking families are likely to increase homeownership among the target families themselves. The resulting increase in their homeownership rate is then expected to have spillover effects that will further increase homeownership throughout the Hispanic community⁹

In summary, these demographic trends suggest that immigrant households are knowingly moving to new immigrant gateway cities that offer more affordable housing, better job opportunities, and improved living conditions. These households are likely to benefit most from financial literacy training and homebuyer education and counseling. Just prior to the subprime crisis, the growth and migration patterns of Hispanic households had contributed substantially to the housing boom in the suburbs, averted a decline in urban housing markets, and helped stabilize housing markets in many declining small towns and rural areas.¹⁰

Trends in Income and Wealth

According to the Census Bureau, the poverty rate of Hispanics dropped significantly by a third from 30.7% in 1994 to 20.6% in 2006. Census data, however, also show that in many parts of the country, the poverty rate of Hispanics is still about double that of non-Hispanic Whites. In several states such as California, Arizona, Colorado, New Mexico, and Nevada, poverty rates for Hispanics range from 20% to 30%, compared to 8% to 14% for non-Hispanic Whites. Nationwide, as of 2003 the net wealth of Hispanics per household was only about 9% (\$7900) that of non-Hispanic Whites (\$89,000).¹¹

Similarly, the median household income for Hispanics in most cities is only about three-fourths (73%) that of non-Hispanic Whites. Growth in Hispanic income is, however, most apparent in cities such as Chicago, IL, and Miami, FL, and several cities in California where the median income of Hispanics is at least 85% that of non-Hispanic Whites.

Because Hispanic households tend to be large and often pool their resources, using median household income data demonstrates a stronger economic base for Hispanics than data on median family incomes which is lower (see Table 5.1). Underlying the wide gap in income between Hispanics and non-Hispanic Whites, however, is the fact that more than half of all Latinos in the labor force work at low- to moderate-income jobs. Presently, nearly half (47%) of all Latinos are concentrated in some of the lowest paying jobs, including service laborers, operators, and fabricators as well as farming, forestry, and fishing occupations.¹²

Table 5.1. U.S. Median Household Income: 1995-2006

	US Total Population	Non-Hispanic Whites	Hispanics
1995	\$34,076	\$35,766	\$22,860
1996	\$35,492	\$37,161	\$24,906
1997	\$37,005	\$38,972	\$26,628
1998	\$38,885	\$42,439	\$28,330
1999	\$40,816	\$44,366	\$30,735
2000	\$42,151	\$45,910	\$33,455
2001	\$42,228	\$46,305	\$33,565
2002	\$42,409	\$46,900	\$33,103
2003	\$43,318	\$47,777	\$32,997
2004	\$44,389	\$48,977	\$34,241
2005	\$46,326	\$50,784	\$35,967
2006	\$48,200	\$52,400	\$37,800

Source: U.S. Census Bureau

Relationship between Income and Housing Costs

The trend toward larger Hispanic households with multiple wage earners is a natural response to increasing housing costs. For many Hispanics, the most viable path to homeownership is to pool incomes and other assets, often as part of a large extended family or families where several household members of varying ages are involved in the buying process.

Even with pooling resources, a majority of Hispanics, however, still pay more than 30% of their monthly income to cover housing costs. In 2003 nearly half of Hispanic households (46%) devoted more than 30% of household income to housing expenses. Another 20% of Hispanic households devoted more than 50% of household income to housing expenses.¹³

Gaps in Median Home Values between Hispanics and non-Hispanic Whites

Hispanics generally own homes that are of lesser value than those of non-Hispanic Whites. Such difference in median home values varies by geographic area and is related to factors that compound income differences such as age, location, occupation, and citizenship status.

For example, in older, more established Hispanic settlements in Arizona, New Mexico, and border cities in Texas, the values of Hispanic-owned homes are 10% to 25% less than the median value of homes owned by non-Hispanic Whites. However, in about 50% of the metropolitan areas in the country with at least a 25% Hispanic population, in areas where former or current farm workers are just beginning to settle in such as the Yakima Valley in the state of Washington, and in transitional, smaller urban communities such as Victoria, TX and Lubbock, TX, the median values of Hispanic-owned homes are

between 30 to 50 percent less than the median value of homes owned by non-Hispanic Whites.

Finally, Hispanics who live in, or move to, parts of large metropolitan areas that are already densely populated by Hispanics, are more likely to own or buy homes that are closer in value to homes owned by non-Hispanic Whites. This smaller gap is true in some densely populated Hispanic neighborhoods in New York, NY, Chicago, IL, Houston, TX, Miami, FL, Los Angeles, CA, San Bernadino, CA, and San Diego, CA where bilingual, culturally-sensitive housing professionals are readily available. Indeed, because Latinos are more likely to live in densely populated urban areas, census data in 2003 shows that nationwide the median current market value of the homes they own (\$130,000) is very close to that of homes owned by Whites (\$140,000).

According to the HUD homeownership studies, the demand for homeownership and related services among Hispanics grows as the Hispanic population grows. Such increases in demand prompt more service providers (such as real estate agents, lenders, and housing counseling agencies) to offer targeted and improved services to Hispanics.¹⁴



The Impact of Place of Residence and Other Factors on Homeownership Rates

HUD studies on Hispanic homeownership found that Hispanic homeownership rates are consistently lower in metropolitan areas than in non-metropolitan areas. Unfortunately, the overwhelming majority of Hispanic households live within these metropolitan areas where housing costs tend to be high relative to Hispanic household income.

In analyzing the relationship of Hispanic place of residence, income, and median home values to their homeownership rates, HUD concluded that Hispanic homeownership rates are higher in areas where (a) Hispanic median income is a higher proportion of the area median income and (b) median housing values are lower. HUD found, for example, that in 2000 the Hispanic median income as a percent of area median income was above 80% in nine of the ten metropolitan areas with the highest rates of Hispanic homeownership.

In particular, within the McAllen-Edinburg-Pharr-Mission metropolitan area in south Texas, the Hispanic median income as a percent of area median income was 90%, the rate of homeownership of Hispanic households was 72%, and the median value of owner-occupied housing was only \$52,000. In fact, with respect to median home values,

none of the top ten metropolitan areas with the highest Hispanic homeownership rates had median housing values above the national median (\$159,000).¹⁵

In comparison, HUD found that Hispanic homeownership rates are much lower in metropolitan areas where the Hispanic median income was a lower proportion of area median income and median housing values were higher. Indeed, in seven of the ten metropolitan areas with the lowest Hispanic homeownership rates, the Hispanic median income as a percent of area median income was below 80%.

For example, in the New York-Northeastern, New Jersey metropolitan area, the Hispanic median income as a percent of area median income was 70% and only 14% of Hispanic households were homeowners. Correspondingly, HUD found that home values were considerably higher (\$234,000) in this northeastern metropolitan area and that in half of the metropolitan areas with the lowest Hispanic homeownership rates, median housing values were above the national median (\$159,000).¹⁶

The Impact of Demographic and Housing Market Variables on the Homeownership Gap

The rate of homeownership for Hispanics varies widely across the United States. In 2005, the rate of Hispanic homeownership ranged from a low of 26% in Massachusetts and New York to a rate of 59% in Texas and 69% in New Mexico. States with the highest rate of homeownership are primarily located in the South and the Midwest. However, North Carolina in the Southeast has the third lowest Hispanic homeownership rate in the country (28%).¹⁷ This wide range in homeownership rates is due primarily to the growing gap between Hispanic incomes and home prices in various parts of the country and to the lack of affordable housing in many localities.

According to HUD, most of the Hispanic-White homeownership gap is related to Hispanics' low income and wealth, younger age profile, and lower levels of educational attainment. Other factors affecting this gap include Hispanic household type, place of residence, mobility, and country of origin. HUD found that Hispanic homeownership rates increase and gaps decrease as age, educational status, and income and wealth increase. Furthermore, Latino married couples displayed much higher rates of homeownership than other household types.¹⁸

Finally, HUD found that the remaining difference in homeownership rates between Hispanics and non-Hispanic Whites can be directly related to their immigrant or citizenship status. For example, HUD points out that Hispanics who are citizens have higher homeownership rates than immigrants and the rate of homeownership for immigrants increases the longer they live in the United States and the more fluent they become in English.¹⁹ A study by the University of Notre Dame Institute of Latino Studies similarly found that increases in the rate of Hispanic homeownership are associated with:

- The aging of predominantly youthful Hispanic householders.
- More years spent in the United States by the majority of Hispanic immigrants.
- Becoming a citizen.
- Larger households with multiple wage earners.

- The increasing growth of suburbs.
- Increased household income associated with all of the above.²⁰

Most researchers generally agree on the common factors associated with increases in the rate of Hispanic homeownership. However, Jose Tolosa, Chief Operating Officer of the Hispanic National Mortgage Association (HNMA), challenges the notion that the homeownership gap between Latinos and non-Hispanic Whites is due solely to income and educational differences or to the fact that most Hispanics live in urban areas (other variables include younger age profile, marital status, country of origin, and citizenship status). Rather, Tolosa affirms that loan product and market inefficiencies are also important variables responsible for the gap, including lack of effective information on the mortgage loan process and on the availability of loan products, as well as inefficient underwriting, marketing, and outreach.

Tolosa believes that these inefficiencies can be addressed effectively and that Latino consumers, including less-assimilated immigrants, can be reached successfully through the use of market-oriented and flexible underwriting practices. He believes that the Latino homeownership market is underserved because:

- Financial institutions are unable to verify the creditworthiness of these non-traditional borrowers and therefore deny them credit.
- Many financial institutions tend to push these customers into high-cost subprime loans.
- Fraud, at both the loan officer and broker levels, is prevalent in dealing with some of these borrowers.

Tolosa concludes that all these factors discriminate against Hispanic homebuyers. He believes that unless such unfair practices are diminished or eliminated, these practices will continue to “exclude viable Hispanic homebuyers and further widen the homeownership and wealth gaps.”²¹ Providing expanded homebuyer education and counseling services should prove an effective way of (1) informing these consumers about the pitfalls involved in falling prey to unfair lending practices and (2) leading them instead to make wise home buying and borrowing decisions.

It should be noted that Hispanic homeownership rates have increased considerably over the last several years. Between 1995 and 2005, long before the onslaught of subprime loans, Hispanics accounted for nearly a quarter (24 percent) of the total increase in owner-occupied homes in the country. Between those 10 years, the number of Hispanic owner-occupied homes increased by 3.1 million reaching a total of 6.9 million in 2005. This represents an 81% increase over the 10-year period beginning in 1995 and compares to a 19% increase for all other non-Hispanic owner-occupied homes. In addition, owner-occupied homes accounted for nearly two thirds of the total growth in Hispanic households during the same time period.²²

Census data show that from 1994 to 2006, homeownership among non-Hispanic White households in the U.S. rose from 70% to 76%, an increase of 9%. During the same

time span, Hispanic homeownership rose from 41% to 50%, an increase of 22%, or more than twice the rate of non-Hispanic White households.

By the end of 2005, the rate of Hispanic homeownership had reached a record level of 50%. Hispanic gains in education and income, proactive actions by the real estate and finance industry, public and private sector homeownership programs (see Best Practice at end of this chapter), and the tapping of ethical subprime loans and manufactured housing had accelerated the growth of Hispanic homeownership nationwide.



Best Practice: Combining or “Layering” Homeownership Assistance Funds



In 2002, the Housing Authority of the City of Yuma closed on the first HUD Voucher Homeownership Program loan in the state of Arizona. Martha Bouzanquet became the first person to become a homeowner under the HUD program. Bouzanquet's voucher assistance is leveraged through a \$10,000 Individual Development and Empowerment Account (IDEA) grant from the Federal Home Loan Bank of San Francisco.

A \$7,750 Rural Home Purchase Assistance Program deferrable loan from the Arizona Department of Housing further assisted Bouzanquet in covering her down-payment and closing costs. Bouzanquet also had \$3,334 in savings she had accumulated as a HUD Family Self-Sufficiency Program participant. Bank One – with Fannie Mae as a partner and secondary lender – is providing her HUD Section 8 Voucher mortgage loan.

Bouzanquet's first monthly mortgage payment was \$579. She began making a payment of \$392 and a HUD voucher payment of \$187 covered the remaining amount. As a renter, her own rental contribution had been \$386 a month. For \$6 more a month, Bouzanquet began living proudly with her family in her own new home.

The Housing Authority of the City of Yuma has been nationally recognized for pioneering HUD's Voucher Homeownership Program in Arizona. It has successfully used this program to increase the number of Latino homeowners in the state.

Chapter Six

The Effects of Unfair Lending Practices

Our members unanimously favor new [mortgage suitability] standards that ensure Hispanic homebuyers are treated fairly, make sustainable homeownership possible, and keep credit options accessible to Latino families. Reforms that protect consumers and strike a balance for practitioners that work with the underserved community are absolutely critical to keeping the door open to homeownership.

*Felix DeHerrera, Former Chairman
National Association of Hispanic Real Estate Professionals*

According to several studies, a wide gap in homeownership rates and home values still exists between Hispanics and non-Hispanic Whites in part because of disparate home purchase prices and mortgage interest loan terms offered to Hispanics versus non-Hispanic Whites. These studies conclude that the differences in prices and interest rates manifest the effects of abusive loan practices as well as discriminatory housing and credit market practices that not only result in unjustified higher-cost loans for Hispanics but also deter them from non-Hispanic White owner-occupied neighborhoods.

For example, an issue brief by the National Council of La Raza (NCLR), “American Dream to American Reality: Creating a Fair Housing System that Works for Latinos,” reports that Latinos experience substantial levels of housing discrimination.¹ Furthermore, a study by the National Community Reinvestment Coalition, “Fair Lending Disparities by Race, Income, and Gender in All Metropolitan Areas in America,” found that prime lenders have failed to set the pace in fair lending to Hispanics and were outperformed by subprime lenders in 89% of the metropolitan statistical areas (MSA).² Finally, a Federal Reserve study of HMDA data collected in 2005 showed that 54.7% of African American borrowers and 46.1% of Hispanics took out “higher-priced loans,” compared with 17.2% of Whites.³ In 2006, a similar Federal Reserve study found that a slightly higher percentage of Hispanic borrowers (46.6%) took out higher-priced loans.⁴

The NCLR brief looked at mortgage lending trends in the Hispanic community and used Home Mortgage Disclosure Act (HMDA) data to estimate mortgage trends. The brief found that while Hispanics were taking out home loans at increasing rates, they were also obtaining a higher proportion of loans from subprime lenders and were subjected to higher rejection rates than non-Hispanic Whites, even when controlling for income.

The NCLR brief depicts how subprime loans provide lower economic benefits for consumers than prime loans; i.e., borrowers of subprime loans pay higher points, fees, and interest rates than they would for prime loans. They also build equity more slowly than prime borrowers and create less wealth for themselves.⁵ Finally, many of these borrowers could have qualified for prime loans. According to Fannie Mae and Freddie Mac surveys, as many as one-third to one-half of Latino borrowers who had obtained subprime loans actually qualified for prime loans. Freddie Mac data also showed that nearly

40% of Latino borrowers with incomes in excess of 120% of family median income had obtained subprime loans. In New York City, for example, more than half of the Hispanic borrowers who earn between \$125,000 and \$250,000 a year took out a subprime mortgage in 2006.

NCLR strongly asserts that inefficiencies in the mortgage market hinder it from better serving Hispanics. These inefficiencies include an insufficient number of bank branches, a lack of outreach efforts by lending institutions, and an ineffective use of existing underwriting tools.

To help Hispanic families secure the lowest cost mortgage loans for which they qualify, NCLR recommends:

- (a) increasing consumer protections against predatory lending
- (b) requiring lending institutions to refer 'upwards' qualified potential customers to prime loans
- (c) monitoring and regulating mortgage brokers
- (d) increasing access to the mainstream lending market

Wider availability of bilingual, culturally-sensitive housing professionals who are highly ethical and responsive will also increase Hispanic access to the mainstream market. Such professionals play an integral role in providing accurate, reliable, and thorough information on affordable mortgage loan rates, home prices, loan products, and financial assistance programs.

HUD Analysis of Discrimination in Housing Markets

HUD's analysis of first mortgages made in the conventional market found some evidence of discrimination. It concluded that Hispanics were given lower estimates of how much house they could afford, less information on the various mortgage products available, and were less likely to be given positive coaching. HUD specifically found that "even when controlling for differentials in available household, loan, and property characteristics," Blacks and Hispanics (particularly non-White Hispanics) were given significantly higher interest rates than comparable White households.⁶

HUD indicates, however, that these differences cannot be definitively linked to discriminatory treatment in mortgage markets because there is not enough information on household credit and net wealth or on the particular financial institutions extending the credit. HUD suggests that more analysis is needed to determine the factors that cause the observed differences in mortgage rates between minority families and White families and between non-White and White Hispanics. To reduce the differential treatment of minority loan applications, HUD recommends that lenders should:

- Include the goal of fostering minority lending in the institution's mission statement.
- Provide market-based incentives to employees for fostering minority lending.



- Involve senior management in developing, implementing, and monitoring minority-lending goals.
- Foster minority lending through recruitment and promotion of minority staff.



- Train staff on fair lending practices, multicultural interactions, and the handling and monitoring of fair lending complaints and performance.
- Conduct effective outreach to minorities.⁷

According to HUD, fully investigating the issue of disparate treatment requires that researchers have access to detailed information on the net wealth and credit history of mortgagors as well as on financial institutions and their underwriting criteria. The housing industry and service providers also urgently need to gain an improved understanding of the way credit markets work to produce differential outcomes for minority households.

Often, the overriding quest to earn higher levels of profit makes it easier, albeit perhaps even unwittingly, for some lenders or brokers to exploit vulnerable consumers by charging them higher interest rates and excessive fees. For example, unscrupulous subprime lenders had often in the past chosen not to evaluate a borrower's credit at all in order to categorize the borrower as higher-risk and charge more. Indeed, some subprime brokers and bank officers often did not bother to tell borrowers that providing income and job verification would lower the loan's costs considerably. The net result was that a great number of minority borrowers, including Hispanics, wound up unnecessarily paying higher-cost loans that put them in danger of losing their homes. Accordingly, understanding more effectively how credit markets can adversely affect particular consumers is essential to designing policies that promote equal access to owner-occupied housing for everybody.⁸

Predatory Lending and Fair Housing Findings

- According to the National Community Reinvestment Coalition, Latino borrowers with subprime loans made since 1999 are projected to lose \$71 billion to \$92 billion through foreclosures.
- Federal Reserve analyses of HMDA data show that in 2005, 46.1% of Hispanics took out higher-priced loans, compared to 17% of Whites. The incidence for Black borrowers was 55%. In 2006, the incidence of Hispanic borrowers taking out higher-priced loans was 46.6%, more than three times the rate of non-Hispanic Whites.

- Surveys conducted by Fannie Mae and Freddie Mac showed that as many as one-third to one-half of Hispanic borrowers who had obtained subprime loans actually qualified for prime loans.
- Freddie Mac data also showed that nearly 40% of Latino borrowers with incomes in excess of 120% of family median income had obtained subprime loans.
- Recent studies show that in New York City, more than half of the Hispanic borrowers who earn between \$125,000 and \$250,000 a year took out a subprime mortgage in 2006. In Bethesda, Maryland, 57% of the home purchase loans made to Hispanics with incomes over 120% of the area median income were high-cost loans, compared to only 7.0% of the loans made to Whites with similar incomes.



Best Practice: Outreach, Homebuyer Education and Counseling, Affordable Loan Products, and Innovative Technology Tools

In Tucson, Arizona, Freddie Mac, one of the nation's major secondary mortgage market institutions, carried out a \$50 million "Catch the Dream" Initiative to expand mortgage credit opportunities to underserved households. Begun in 2003, the initiative consisted of aggressive outreach to first-time homebuyers, homebuyer education and counseling, affordable loan products, and the use of innovative technology tools.

The initiative involved a creative \$27 million lease purchase program whose objective was to help families with impaired credit, no credit or who lacked cash for down-payment and closing costs to buy a home. It included a \$23 million home mortgage program that offered families a low down-payment (as low as \$500) and flexible credit options.

Working with local homebuilders and community-based organizations, "Catch the Dream" Tucson was expected to generate over 600 units of newly constructed single family affordable homes. "Catch the Dream" participants included Chicanos por La Causa, a statewide nonprofit organization, the U.S. Department of Housing and Urban Development, the National Association of Hispanic Real Estate Professionals (NAHREP), Pima County Government, Wells Fargo Home Mortgage and other partners.

Source: Freddie Mac

Chapter Seven

The Hispanic Homeownership Market

The focused needs of the family represent the foundation of Latino life. Equally critical is the degree of sociability of the Latino lifestyle both inside and outside the home... Developers and builders interested in creating serious demand from the burgeoning Latino population must recognize that in the end, Latinos are seeking not just a house – but a home. Homes – not buildings – make a community.

Thomas Gallas and Roberto Moranchel
“Creating the New American Community”
Casa y Comunidad: Latino Home and Community Design

In recent years the rate of Hispanic homeownership has rapidly increased as a result primarily of (a) substantial growth in Hispanic population, income, and education, (b) their strong work ethic, and (c) their high aspirations for owning a home. The 2004 focus groups that the Congressional Hispanic Caucus Institute (CHCI) conducted in 11 major cities with a substantial Hispanic population highlighted the following findings:

- Latino consumers share in the American dream of homeownership. The large majority of consumers in the focus groups aspire to become homeowners in order to have "something for their children," to save money on rent, and to stop having "to deal" with landlords and neighbors.
- Latino consumers see homeownership as a path to wealth creation. Consumers did not typically use terms such as "asset building" or "investment opportunity" to describe their motivations for buying a home. However, implicit in their desire to have "something for their children" is the notion of acquiring something of value that will enhance their children's economic future.
- Latino consumers prefer single-family detached homes in safe neighborhoods that are close to schools, friends, family, and places of employment. Consumers are also aware of their need to balance this ideal with what they can afford. In cities with tight housing markets, Latino consumers are moving far from central cities and their places of employment in order to find homes that are both affordable and located in safe neighborhoods.
- "Word of mouth" is the most frequent way in which Latino consumers obtain information about homeownership. Consumers hear from friends, family members or co-workers about different programs and organizations that offer "help." Consequently, there is no single "point of entry" into the housing market - some consumers go to a realtor first, some to a bank, some to a government agency, and some to a nonprofit organization.
- Regardless of where they turn for assistance in buying a home, Latino consumers seek "someone they can trust." Trust is the most important factor influencing whom consumers turn to for information and for assistance. At the same time, focus groups found that Latino consumers quickly trust "anyone" who speaks their language and knows their community. Unfortunately, this often means predatory realtors and lenders.

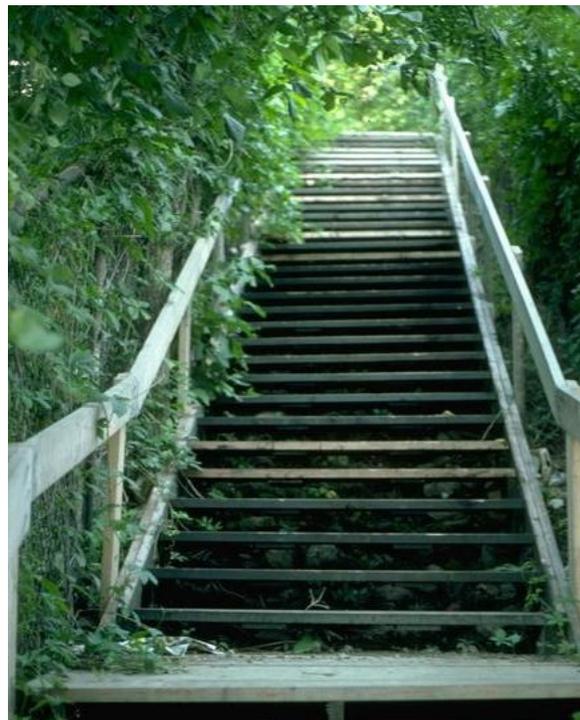
The focus groups, for example, found that nearly all Latino consumers who had bought or tried to buy homes reported at least one bad experience with the process, such as being taken advantage of by a predatory realtor or lender. In contrast, those who had successfully purchased a home believed that what made a difference was having an advocate - whether a committed realtor, loan officer, or nonprofit staff member - to help navigate the process.¹

The 157 consumers who participated in the focus groups included both immigrants and second and third generation U.S.-born Latinos. However, the majority of these consumers were immigrants from different countries in Central and South America. Their length of time in the U.S. ranged from six months to over 30 years. Furthermore, local grassroots nonprofit organizations recruited these consumers who tended to be mostly low-to-moderate income individuals.

For this more comprehensive primer, however, it was important to consider the characteristics of the entire Hispanic population, including the increasingly greater number of moderate- to middle-income Latinos who equally share a strong work ethic, may hold more than one job, own a business, or have various members of the household working and pooling their resources. Examples that help show the wider marketing characteristics and preferences of Hispanics include:

- Studies by the Tomas Rivera Institute and NAHREP which found that most Hispanic homebuyers obtain their information through real estate professionals. According to NAHREP, Latinos prefer to establish long-term relationships with professionals, based on trust. NAHREP points out that Latinos are culturally inclined to be positive about bilingual or Spanish-speaking real estate professionals referred by friends or family.² Other studies have similarly concluded that Hispanics are accustomed to deferring to professional expertise and that they value loyalty.

- The HUD 2006 homeownership studies which concluded that some Latinos prefer to remain as renters within their own neighborhoods if the only affordable homes they find for sale are in poor condition or located in unattractive neighborhoods. According to HUD, Mexicans tend to prefer more rustic settings while Hispanics who migrate from northern states prefer "Florida-looking" homes that are located in fancy communities. In contrast, HUD found that recent immigrants are more comfortable in older, less fancy neighborhoods that have flexible parking regulations and fewer property restrictions.³



- *Casa y Comunidad*, a new book edited by former HUD Secretary Henry Cisneros, recommends the construction of homes that take into account the architectural preferences, lifestyles, and space needs of prospective Latino home buyers. Secretary Cisneros believes, for example, that builders need to design homes and neighborhoods that satisfy the space needs of and appeal to Latino families. In particular, Secretary Cisneros encourages builders to construct larger homes that accommodate the needs of many Hispanic households or nuclear families that choose to live together.

Overall, Secretary Cisneros calls for builders to plan and design residences and communities with the following features and amenities:

- * Garages that can be converted into additional rooms for larger families or extended families.
- * Open floor plans so parents can monitor their children playing or completing homework from the kitchen.
- * Double, split master-bedrooms so multiple generations of families can live in the same home.
- * Kitchens that are the center of the family's social space and are visually open to other family gathering areas and outdoor play spaces.
- * Community parks, plazas and barbecue pits for family gatherings, as well as play areas and soccer fields for children.
- * Outdoor space for patio, play areas for children, and fruit trees and vegetable gardens.
- * Storage space for family supplies and work-related tools and equipment.
- * Interaction with neighborhood schools by sharing assets such as jogging paths, playing fields, meeting spaces, library resources, after-school programs, computer labs and other facilities.



- * An extended driveway for multiple cars, including pick-up trucks or vans.
- * Homes built near public transit services to reduce shelter and transportation costs.⁴

The construction of specific features and amenities that can be built for Latino consumers will also largely depend on family needs and affordability, the availability of land and construction materials, and housing density constraints. Similar economic factors affect the ability of local builders to use features and amenities that Latinos prefer or would love to have, especially those that remind them of homes and communities in their native land or of the homeland of their parents. These construction features include columns, arches, brick exteriors, terraces, stucco and tile roofing, tile floors, and the use of “brighter-than-pastel” colors that adds “fun and freshness as well as appeal to heritage and nostalgia.”⁵

Most Latinos associate owning a home with a personal and collective strong sense of pride, security, independence and achievement. As prospective homeowners, they envision themselves becoming free of the restrictions and poor living conditions they often associate with rental housing units and see themselves more as masters of their own destinies.

Summary of *Casa y Comunidad*

Secretary Cisneros’s book, *Casa y Comunidad*, is timely, relevant, and groundbreaking. *Casa y Comunidad* not only prepares all segments of the housing industry to better understand and interact with Latinos, but also details the complexities involved in ensuring that all of these segments - builders, developers, financial institutions, and local governments - can work collectively in order to meet the social, cultural, and economic housing needs of Latinos.⁶ An overview of Cisneros’s book is presented here to show how it can help prod the housing industry into designing homes and planning communities that attract and support the lifestyles of Hispanics.

Overall, *Casa y Comunidad* offers practical guidelines regarding Latino culture and family values that are directly related to their home design preferences. At the same time, *Casa y Comunidad* steers the housing industry into viably tapping a market that is destined to transform America’s economic growth well into the 21st Century.

Importantly, *Casa y Comunidad* sets the stage for what may well determine the direction of lifestyles and housing choices for Latinos in the future: a choice between Latinos assimilating and accepting the norms, designs, and preferences of the dominant culture or having the dominant culture build homes for Latinos that largely reflect their cultural preferences and needs. In particular, the book strives to achieve a practical balance: not a “one size fits all” solution but rather a tacit acknowledgment that this country’s traditional communities have been designed and built consistently with a different look and feel in each region and that these traditional communities have been “heavily influenced by the people that settled there and built them, as well as by other significant factors such as climate and locally available materials.”⁷

Overview of the Latino Homeownership Market

Casa y Comunidad's first article, written by former HUD Secretary Henry Cisneros, depicts America's largest minority group as one that is rapidly moving into every region of the country, establishing beachheads in the suburbs of metropolitan areas such as Chicago and Denver and in new locales such as Durham NC, and transforming the nation's cultural and economic landscape.

Secretary Cisneros guides readers into better understanding the cultural, social, and economic trends that are being created through the convergence of Latino population, national origin, and housing needs. He describes the influence of these factors in every major region of the country where Latinos reside: the Northeast; Florida and the Southeast; Texas; the upper Midwest; the Rocky Mountain West; and California and the Pacific Region.

Importantly, Secretary Cisneros focuses on the areas of the country to where more Latinos are moving, including the suburbs and new localities such as Atlanta, Georgia and Columbus, Ohio, as well as cities with a growing Latino population such as Cleveland, Detroit, Newark, and Philadelphia. Finally, Secretary Cisneros richly describes Latino attributes such as family structure, lifestyles, activity patterns, and desired community amenities. He calls for the housing industry to increasingly consider these attributes as it seeks to respond more effectively to the housing needs of Latinos.

Secretary Cisneros strongly believes that various housing types and themes can be used in Latino communities, with the appropriate design and styles largely dependent on the region of the country and the "imperatives of climate, topography, and custom." To help the housing industry respond effectively to the home and community design needs of Latinos, Secretary Cisneros developed a chart which provides suitable guidelines for:

(1) Housing designs that allow for the larger family size and relative youthfulness of Latino families, e.g., more but smaller bedrooms and separate quarters for a grandparent.

(2) Housing designs that respond directly to the social and work characteristics of Latinos; e.g., living space and parking that can accommodate typical large family gatherings; and,

(3) Planning communities that effectively serve and attract Latinos, e.g., planning heritage themes to include respectful naming of the community, exterior colors for homes, and architectural designs.





Reaching the Hispanic Homeownership Market Effectively

Casa y Comunidad's second chapter, "A Builder's Guide to Reaching Latino Home Buyers" by Rick Schwolsky, identifies key homeownership initiatives from major lenders such as Fannie Mae's American Dream Commitment, an initiative that was established to help create 1.4 million new minority home owners by 2014. Schwolsky also lays out the different ways in which the housing industry can reach the Hispanic market through media and other marketing outlets. In particular, Schwolsky details how the housing industry's improved understanding of the different cultures and levels of acculturation among Latinos can help it adjust to the specific needs of Latino buyers.

The Impact of Latino Customs and Lifestyles Their Housing Preferences

The chapters "Capturing the Latino Spirit in Interior Design" by Victoria Sanchez, "The New Latino Home: Single Family" by Jorge Velasco, and "The New Latino Home: Multifamily" by Hipolito Roldan, describe the impact of Latino family customs and lifestyles on their preferences in housing designs. Velasco, for example, emphasizes the

design preferences of Latinos in the use of materials, colors, and other elements of a home, including a desire for enough living space to accommodate the size of the family and a kitchen where functionality (cooking) meets ambiance (visually appealing for socializing and family interaction).

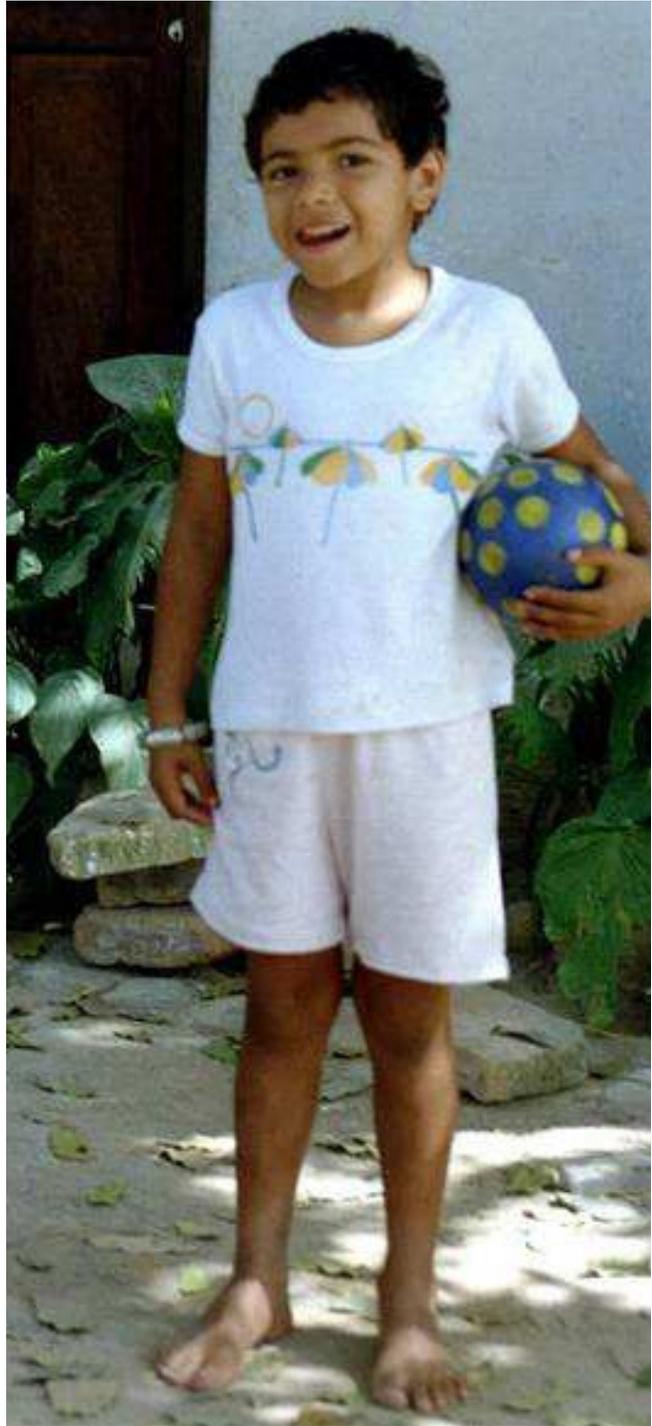
Homeownership Barriers Confronting Latinos

The chapters, "Building Sustainable Affordable Housing" by Warren Hanson, "Barriers Confronting Latinos" by Jorge Velasco, and "The Path to Homeownership Among Latinos of Mexican Origin" by Jongho Lee and Harry P. Pachon focus on the homeownership barriers Latinos face. In particular, they emphasize how the Latino market is adversely affected by the lack of affordable housing in many parts of the country. They advocate the construction of compact homes and communities and the implementation of strategies such as self-help housing in order to adequately address the issue of affordability and respond effectively to the cultural needs and preferences of Latinos.

Building Homes for Latinos in the Future

The chapters “Creating the New American Community” by Thomas Gallas and Roberto Moranchel, “Latino New Urbanism,” by Michael Anthony Mendez, “Preferences of Latino New Home Buyers” by Michael Carliner, and “Outlines for the Future” by Richard A. Eribes all describe the various elements that should guide the construction of homes and communities for Latinos. Gallas and Moranchel, for example, strongly call for the housing industry to respond adequately to prospective Latino homebuyers who persist in wanting the best housing available and demand a living environment that helps them connect with their strong sense of culture and family. They expect builders to “offer a vibrant fusion of diversity and social connection to satisfy their demand.”

Michael Carliner believes that the recent growth in Latino homeownership “has already shifted the mix of new housing production somewhat to reflect the requirements and preferences of Latino households.” Carliner points out, however, that the differences between the preferences of Latino home buyers and those of other home buyers are not radical. Rather, he suggests that because Latino preferences mirror previous non-Hispanic home buyer preferences, their household preferences may in time turn out to be even more indistinguishable from the mainstream. Nonetheless, Carliner concludes that the designs and ideas of Latinos will continue to influence the broader home-buying public.



Michael Anthony Mendez advocates the Latino new urbanism concept: a leading alternative model to suburban sprawl that accommodates population growth and Latino preferences for compact neighborhoods, large public places, and a strong sense of community. Mendez believes that Latino new urbanism strongly appeals to Latinos because it captures and promotes the environmental, social, and economic benefits of their traditional lifestyles. Mendez also believes that Latino new urbanism successfully counters conventional growth patterns and policies that unfortunately foster “Latino sprawl,” that is, the wide scattering of Latinos into conventional, low density suburban housing units.

Mendez concludes that the Latino lifestyle represents an untapped resource that can assist the development and growth of highly sustainable communities nationwide. He affirms that Latino new urbanism is consistent with Latino housing design preferences and cultural values, encourages strong social interactions, and provides affordable housing through the construction of compact homes, apartments, and communities.

Finally, Richard Eribes depicts future growth scenarios for Latinos and identifies those areas in the country such as California, Texas, and Illinois where Latinos are most likely to experience the greatest increase in housing demand. He emphasizes that housing involves more than just shelter, that it is a package of community resources that is “often at the heart of a decent life.” Eribes strongly believes that developers need to focus more on the quality of the neighborhood rather than on the amenities of the individual housing unit. He advocates the construction of:

- Mixed-use neighborhoods with a range of housing types, shops, and services, including compact neighborhoods, outdoor public places, multigenerational families, and commercial shopping in close proximity to housing.
- Schools that provide access to a quality education.
- Neighborhoods with convenient access to community services, including churches and civic space such as parks and plazas (plazitas).
- Public transit-oriented residential neighborhoods.

Eribes also calls for (a) the home building industry to support increased densities, mixed use development, and better public transit, and (b) local governments to meet the needs of local residents for public transit and design residential streets which encourage pedestrian-oriented neighborhoods. Eribes believes that it is important to recognize that dwellings are the building blocks of our communities; however, he emphasizes that in the end dwellings “are only the means to great neighborhoods.”

The Latino Housing Landscape Today

Because of the current housing market downturn, many builders nationwide are now constructing homes that are particularly appealing to Latino homebuyers. For example, many builders in southwestern states are developing large, open floor plans that

have ample space for cooking and entertaining, building first-floor bedrooms that are ideal for multigenerational families, and adding more backyard space for family gatherings. They are also adding more bedrooms and bathrooms as well as increasing the size of garages to accommodate large Hispanic families. Finally, builders are providing common areas that can include a recreation center with a pool, basketball courts, and a full kitchen where Latinos can socialize, play, and party.

Builders are also hiring more bilingual agents and creating brochures and billboards in both Spanish and English that include photos of Latino families. Importantly, builders are also accessing government programs for Latino homebuyers who qualify for loans with low down payments and low interest rates or for first-time Latino homebuyers who qualify for subsidized loans or down payment assistance.⁸

Hispanic Homeownership Marketing Opportunities

According to NAHREP, substantial growth in population, income, and education are positioning Hispanics to represent a significant share of the U.S. first-time home buying market in the coming years. NAHREP points out that Hispanics are the most underserved mortgage market segment in the U.S. and have the largest potential for growth.⁹ For the housing industry to benefit fully from all the opportunities that the Hispanic homeownership market offers, it must tailor its outreach efforts to better meet the needs of prospective Hispanic homebuyers. It also needs to be aware that while most Hispanics share some general characteristics such as placing a high value on family, they are also an exceptionally diverse group. Accordingly, most observers agree that a “one-size fits all” approach to the Hispanic market will simply not work. Marketers must go beyond generalizations and be fully aware of distinctions that require different business approaches.¹⁰ To help the housing industry tailor its marketing efforts to Hispanic prospective homebuyers, NAHREP has identified the following major sub-segments within the Hispanic population:

- **Under 40 years of age.** Hispanics are the youngest ethnic minority in the country with half of the household heads under 40 years of age. By 2010, these households will be entering their prime home buying stage of life and will make up a critical part of the echo boomers, the next dominant generation of Americans.

Latino echo boomers tend to be quite sophisticated and are not easily lured by mass marketing or the traditional 30-second commercial. Like their parents, they take their cues from each other, with word of mouth, especially through friends and the Internet, being particularly important to them. They rely on a greater number of media choices and are receptive to web sites and events that cater specifically to their needs.

- **Recent immigrants.** Homeownership rates tend to increase with the length of time immigrants have been living in the United States. Given the large immigration numbers in the 1980s and 1990s, these immigrants are likely to become homeowners in the next 10 years. The typical Latino immigrant homebuyers have lived in this country for a period of seven to eight years, have children, work hard - often holding more than one job or having more than one wage earner in the household - and will do everything within their power to buy and keep a home.

- **Undocumented immigrants.** NAHREP estimates that about 375,000 undocumented immigrant households are eligible for mortgages. It calculates that selling homes to these immigrants would generate about \$85 billion in new mortgage originations.
- **Residents in large metropolitan areas.** Metropolitan areas in the states of Arizona, California, Florida, Illinois, New Jersey, New York, and Texas are home to more than 1 million Hispanics. According to Hispanic Business magazine, the following ten markets currently demonstrate vast potential for continued growth and opportunities for the housing industry: Albuquerque, N.M., Phoenix, AZ; Atlanta, GA; El Paso, TX and south Texas; Las Vegas, NV; Greensboro, NC; Minneapolis-St. Paul, MN; San Bernadino/Riverside, CA; Denver, CO; and the Washington, DC metropolitan area.
- **Residents in the Western and Southwestern regions of the U.S.** Hispanics have concentrated in large metropolitan areas predominantly in the Western and Southwestern regions of the country.¹¹ Hispanics are also concentrated in other parts of the country, including Chicago, IL, Miami, FL, Washington, DC., and New York/New Jersey/Pennsylvania metropolitan areas. Finally, it should be noted that Hispanics are consistently moving to cities that offer better job opportunities and more affordable housing such as Atlanta, GA, Durham, NC, and Orlando, FL (see Tables 7.1 and 7.2).
- **People of Mexican heritage.** Hispanics of Mexican heritage are the largest market sub-segment representing 64% of the total Hispanic population, followed by Puerto Ricans with 9%, 4% Cubans, 3% Salvadoran, and 3% Dominican. The rest include other Central American, South American, or other Hispanic or Latino origin.

Table 7.1 States with Highest Concentration of Hispanics, 2006

State	Hispanic Population
California	13,074,000
Texas	8,385,000
Florida	3,646,000
New York	3,139,000
Illinois	1,887,000
Arizona	1,803,000
New Jersey	1,365,000
Colorado	934,000
New Mexico	861,000

Source: U.S. Census

Table 7.2 Sizeable Hispanic Markets

Market	Hispanic Population
Los Angeles	8.4 Million
New York	4.4 Million
Miami	2.1 Million
Houston	1.9 Million
Chicago	1.9 Million

Markets with High Hispanic Concentrations

McAllen, Texas	94% Hispanic
El Paso, Texas	88% Hispanic
San Antonio, Texas	54% Hispanic
Fresno-Visalia, Calif.	50% Hispanic

*Source: U.S. Census, Advertising Age
"Hispanic Fact Pack" 2006, Scott D. Schroeder, Cohorts*

• **Affluent Latinos.** Hispanic households earning over \$100,000 per year have grown by more than 125% over the past decade. They represent a total net worth of half a trillion dollars. Over 45% of the total affluent Latino market is found in five geographic markets – Los Angeles, New York City, Miami, Houston and Chicago.¹² According to HispanicBusiness.com, affluent Latinos are made up of the following sub-segments:

- o Heavy hitters. Age 50-70; \$250,000+ annual income; prestigious university/ Ivy League graduates; executive/established entrepreneur; second generation; bilingual/bicultural; need financial education, estate planning, and retirement services.
- o Young professionals. Age 35-50; \$175,000+ annual income; highly educated; first generation; highly mobile; acculturated and bilingual; need asset management, mortgages, and financial education and planning.
- o Immigrant entrepreneurs. Age 45-70; \$150,000+ annual income; educated in home country; senior executive/entrepreneur; bicultural; international; conservative values; inherited and created wealth; need real estate and other secure investments, banking and cash management services.

- o Small business owners. Age 35-65; \$750,000+ in annual sales; limited education; first generation; not acculturated; cash is king; prefer Spanish; need retirement (401K) and cash management and banking services.

Firms competing for this affluent Latino market are providing a national focus, strong brand awareness, linkages with Hispanic business and trade organizations, and bilingual materials. They are customizing programs based on their customers' length of time in the USA, language preference, and degree of acculturation. In particular, firms that are successful in reaching this segment are actively involved in local Latino communities across the country and are developing strategies for penetrating heavily-populated Latino geographic areas.

As indicated previously, 3 million Hispanic businesses are generating nearly \$400 billion in revenue and growing by 25% annually. These Latino businesses and other affluent Latinos need a variety of financial services, including real estate, and want to allocate funds in ways that help build financial security and wealth. It is also noteworthy to keep in mind - that regardless of income status - most Hispanics aspire to buy a home for themselves and their children.

Hispanic Consumer Behavior

According to NAHREP, the following characteristics influence Hispanic consumer behavior:

- **Language differences that impact the way some Hispanics gather information and communicate in making decisions**

A majority of Hispanics need or desire both consumer information and the option to communicate in Spanish. Other Latinos prefer the use of English. In response to such needs, many lenders, including Fannie Mae and Freddie Mac, already produce information in both English and Spanish. Some Latinos fear to admit that they cannot communicate well in English while other Latinos may only speak English. Lenders therefore now instinctively know that bilingual materials add significant value to the sense of trust, convenience, and confidence that many Hispanic consumers feel when they have access to information produced in both languages.



- **Cultural differences that influence the way Hispanics perceive the benefits of products and services, shape their decisions, and decide what to purchase**

Hispanics place a high value on family, children, tradition, hard work, and friendship. They enjoy food, music, dancing, entertainment, cultural events, futbol (soccer) and other sports; they frequently exhibit a strong sense of spirituality and community; and they tend to be

drawn to successful collaborative efforts. Luis Garcia, a Hispanic communications specialist from San Antonio, TX, emphasizes that Hispanics embrace and cherish opportunities to get together with family, with family relationships ranking as the number one priority in their lives. Since Latino households frequently include differing age groups, Garcia strongly advises marketers to make theirs a family-friendly brand whenever possible and realize that their message may be touching more than one generation. According to Garcia, it is often "the educated school-aged kids, not the intended parent target that end up reading and explaining the materials."¹³

In Latino cultures, a person is defined not so much by whatever he or she does for a living, status, or fame. Rather, a person is defined by one's family and community relationships. In summary, family, traditional values, and other cultural traits are important, but marketers must be careful not to gloss over or, worse, overplay these characteristics because they can risk losing brand appeal and loyalty.

- **Segment diversity**

Although the Hispanic segment shares some general characteristics, differences within it impact the kind of products or services that different members of the group might need, desire, or prefer.

Hispanic consumer needs and desires vary according to differences in socio-economic status, age profiles, marital status, and culture integration. To market effectively to Hispanics, marketers must connect well at many levels and be particularly aware of the complex ethnic subcultures from Mexico, the Caribbean, Central and South America.

In summary, language, culture and subcultures, and segment diversity make up Hispanic consumer behavior.¹⁴ According to NAHREP, such behavior translates into the following specific needs, desires, and preferences of the Hispanic buyer:

- **Demand for particular types of products and/or services**

Hispanics prefer affordable housing near family and communities, work, schools, and public transportation, Spanish or bilingual informational materials, and housing built based on Latino cultural preferences. Architectural designs, for example, should integrate themes familiar to Latinos, such as the California mission style, Southwestern adobe, and tropical-Caribbean motifs, with courtyards or patios in the center of the home or verandas situated at the front of the residence.¹⁵

- **Sources of product/service information**

Hispanics obtain information through word-of-mouth from trusted community groups, family, and friends, and they listen to advice from trusted real estate professionals and other housing practitioners. Patiently and perseveringly building Hispanic confidence and trust will pay great dividends since Hispanics are likely to spread the word widely about good service and products to their friends and relatives. Generating positive word-of-mouth and trust is an important objective of a successful emerging market strategy.



- **Communication and business preferences**

Hispanics typically prefer to communicate in Spanish or to access bilingual information, readily connect with people from their country of origin, use language that represents their cultural values, and respond well to simple, visual, short, friendly communications.

Latinos measure rapport with a lender, realtor, or service provider by determining how well these professionals relate to their needs and cultural preferences. Communicating directly and personally with Latinos helps to build and reinforce brand loyalty and trust.

Overall, Hispanics prefer one-to-one relations with trusted advisors, enjoy talking and sharing information, and like to conduct business in places where they can feel comfortable. Although male members of the family usually lead negotiations, the wife or female head of household, children, extended family members, and friends also exert considerable influence in the decision-making process – particularly by actively participating in the selection of a new home and community.

- **Beliefs and levels of knowledge about industries, products, and services.**

Hispanics generally lack knowledge of US financial institutions and real estate practices, have misconceptions and know little about purchasing a home and the various homeownership initiatives, loan products, and financial assistance programs that are available. For example, only 65% of Hispanics have a banking account, compared to about 95% for the rest of the population. Because Hispanics will account for nearly 70% of the growth in new financial services over the next five years in the U.S., the housing

industry must help Latinos to dispel any misconceptions or myths they have about the home buying process (see Figure 7.5). Mortgage lenders need to establish locations near Hispanic neighborhoods and hire bilingual and culturally-sensitive professionals who can respond effectively to the financial needs of the Hispanic community.

Figure 7.5 Common Misconceptions about the Home Buying Process: Survey Results Summary

Common Myths	Percentage Believing the Myth	
	<i>African American</i>	<i>Hispanic</i>
Need almost perfect credit to qualify for a mortgage	49	51
Down-payment as much as 20% is required to buy a home	38	40
Lenders are required by law to charge the same interest rate to everyone	43	48
Lenders share personal financial information with each other and the government	64	60
You must be a US citizen or have a green card to buy a home	54	51
You must have the same job for at least three years to qualify for a mortgage	53	58

Courtesy: Freddie Mac

- **Need for culturally relevant products and services**

Hispanics need culturally relevant products and services from the housing industry as well as culturally-sensitive and attuned marketing and advertising practices. They tend to embrace multiple cultural traditions, including the traditions of their country of origin (if they are recent immigrants), of their local community, or of the broader U.S. culture¹⁶ Developing trusting relationships, supporting community organizations and local events, appealing to Latinos’ strong sense of family values and traditions, and treating Latinos with respect and dignity exemplify a strong cultural kinship and will result in successful marketing efforts.

Most Latinos cherish family life, are passionate about soccer, and thoroughly enjoy music. However, we need to use this knowledge strategically and effectively in order to place us on target with a particular Hispanic home-buying segment. Many Latinos, for example, are used to bargaining and expect to reach a good deal with someone they trust. It is therefore a good practice to show them what comparable homes are selling for within a given area, which homes are selling or about to be sold, and how long the homes have been on the market. They also appreciate obtaining information regarding neighborhood security and the quality of schools, shopping, and public transportation facilities. Finally, one of the best ways to find out what Latino families can afford and are ready to buy is to give them a “menu” of choices, including what the resulting monthly payments will be if they make the minimum down payment, a slightly higher down payment, or (if they can afford it) a much larger down payment.



Hispanics like to shop in surroundings that resonate with the sights, sounds, smells and sensibilities of their homeland. In particular, landscaping, including fruit trees and plants that remind them of their childhood, is notably appealing to Latinos. According to the Nielsen Company, this sense of nostalgia helps to create an important connection with the Hispanic consumer.¹⁷ Using a combination of bilingual resources, including signage and staffing, and creating a family-friendly atmosphere such as through the use of playthings reminiscent of their homeland like balloons, bubbles, and rubber balls; traditional food items such as tacos, tamales, tortas, pupusas, and empanadas; and showing special respect for the elderly and caring for children, can create a familiar sense of community and comfort zone for prospective Latino homebuyers.

Overall, the housing industry needs to create culturally relevant messages that resonate well with Latinos rather than turn them away. It can no longer rely on simply translating English advertisements into Spanish and expect these to be automatically embraced by Latinos. By establishing closer ties and connections within the Latino community, and creating sales and marketing environments that are friendly, focused, and inviting, the housing industry can successfully tap this burgeoning market.¹⁸

Tapping the Hispanic Market

By the year 2010, Latinos will be living and working in practically every region of the country - rural, urban, and suburban communities from Rupert, Idaho to Miami, Florida, and from Honolulu, Hawaii to Juneau, Alaska. From 1995 to 2005, Hispanics accounted for about half or more of the increase in the number of households in Southwestern and Western states such as Texas (72%), New Mexico (82%), California (42%) and Colorado (50%). Surprisingly, during the same time span, Hispanics accounted for 90% of all household growth in Hawaii, 46% in Rhode Island, 40% in New York, 36% in Illinois, and nearly 25% in North Carolina.¹⁹

Latinos already represent an important, growing segment of the American economy, especially of its housing construction and home remodeling sectors. Accordingly, Latinos will increasingly play a vital role in the revitalization and renewal of thousands of America's towns and cities.

So how can industry more effectively tap the Latino market, a market that we have described as being not only complex and diverse but also highly dynamic and robust?

Today, many marketing specialists are producing excellent research with various nuances and applications for this rich, heterogeneous market. A great need exists, for example, for media programming strategies that "provide Hispanic consumers with opportunities to see their life in its richness and current reality."²⁰ Not surprisingly, advertisers today are directly appealing to Latinos' strong attachment to family and to family values as part of their marketing strategies.

Most marketing specialists now realize that targeted efforts are needed to reach Hispanic consumers effectively. According to Hispanic Business Magazine, in 2005 advertisers spent more than \$3.3 billion to market products to U.S. Hispanics. Although traditional Spanish-language advertising was largely used to reach Hispanics, new data reveals that second- and third generation Hispanics tend to favor English.

With respect to the Internet, second and third generation Web users largely dominate the U.S. Hispanic market, increasing to an estimated \$100 million over the past three

years, with the Pew Hispanic Center projecting the U.S. Hispanic online population to increase to 21 million by 2010. Marketers have concluded that Spanish connects best with the first-generation immigrant segments of the market. English, however, fits the reality of second and subsequent generations of acculturated Hispanics.²¹

So far, Spanish has dominated efforts to reach the Latino market despite a significant and fast growing bilingual population. For example, presently 51% of Hispanics using the Internet in the United States prefer Spanish-language web sites, and 23% must have Spanish online, according to the Hispanic Consumer Technographics report from Forrester Research, Cambridge, Massachusetts.²² Accordingly, many competitors who are aware of the continued importance of reaching many Latinos in Spanish have been pursuing positions in previously untapped smaller market Spanish newspaper and radio niches serving the first-generation market segment.

English-dominant Hispanic households, however, now control nearly 60% of all Hispanic disposable income, and will consequently play a more significant role in the future. For many marketers, "acculturated" Hispanics who primarily speak English, have higher than average incomes, and maintain their Hispanic heritage will increasingly represent the prime market.²³

Given these marketing trends, a reasonable marketing approach for reaching Hispanics depends on how well the use of language, English, Spanish, or both languages impacts Hispanic consumers. In terms of the total funds spent in advertising to Hispanics today, Hispanic Business magazine reports that broadcasting accounts for 84% of total spending, with television alone claiming nearly two thirds (63%). Radio adds 21% but plays a predominant advertising role at the local level, followed by newspapers 8%, Internet 3%, and magazines 3%.

For now, television programming aimed at Latinos works best, with Univision and Telemundo leading the pack, but in the near future even programming in English that caters to Latinos will make significant gains in this market. Accordingly, television programming in Spanish should continue to be advantageous for reaching first generation Hispanics and for young Latinos who find it cool and beneficial to be bilingual. Television advertising can be particularly effective if it is engaging, thought provoking, or alluring. Marketers also need to realize that Hispanics often listen to local radio stations for quick updates, and Spanish-dominant Hispanics in particular are avid readers of newspapers and magazines, especially of "foto novelas," that is, "soap opera" cartoon strips.²⁴

In terms of housing, Ryland Homes finds that it is more efficient to use radio advertisements more than newspapers, and digital media more than print. Other builders like Del Valle Homes in Modesto, California prefer to demonstrate their commitment to Latino homeownership through a strong marketing presence consisting of ads, billboards, and word of mouth.²⁵

Reaching the Hispanic Homeownership Market.

According to HUD researchers, Latinos are confronted with a marketing gap primarily because there is not enough outreach to help make them aware of the homeown-

ership services available in their communities. Lack of capacity within local housing providers exacerbates this marketing gap. In particular, both nonprofit housing groups and housing counseling agencies are currently unable to serve a greater number of Hispanic households in need of homeownership services.

At the same time, local housing providers generally acknowledge that major lenders often have sufficient marketing dollars to reach Hispanics, especially for media and print advertisements. They are, however, concerned that these lenders lack a strong educational component that helps Latinos learn how to secure the lowest cost loans for which they qualify. Fortunately, a defining trend among lenders today is their strong disposition to add financial literacy, homebuyer education and counseling to their mortgage lending strategies and practices.

In general, HUD studies show that a majority of housing providers use some type of marketing or outreach effort, including:

- Media advertisements, especially public service radio advertisements;
- Print advertisements in newspapers and written media;
- Presentations at community events or educational seminars, e.g., housing counseling sessions or homebuyer fairs;
- Distributing flyers;
- Targeted mass mailings; and
- Outreach with nonprofit organizations or other partners.

Interestingly, many local housing providers find that word-of-mouth is the most effective marketing tool. According to NAHREP, for example, a majority of Latinos choose their sources of product and service information through word-of-mouth and advice from trusted real estate professionals, community entities, family, and friends, especially if such information is bilingual and culturally-sensitive.

According to Felipe Korzenny, a well-known Hispanic market expert, staying close to the reality of U.S. Hispanic consumers is crucial to marketing decisions. Such marketing advice is particularly true with respect to making the critical decision of buying a home. Korzenny concludes that in assessing marketing approaches that can help them make decisions, Hispanics "seem to wish for role models and portrayals that are culturally relevant, although they do not necessarily need to be in Spanish..."²⁶ Indeed, Hispanics traditionally respect authority and look up to authoritative figures such as clergymen, judges, doctors, and other experts and professionals.

Clearly then, an effort to identify and publicly recognize the local housing providers that help Latinos become homeowners as role models is paramount. So is showcasing as role models the large number of Latinos that have fulfilled their dream of homeownership, thereby demonstrating their strong financial capacity to buy and keep a home.

In the end, successfully reaching Hispanics who are most likely to buy a home will reap great dividends as Hispanics tend to be brand loyal and spread the news of sound financial decisions widely. According to the Tomas Rivera Policy Institute, these Latinos are in their prime earning years, most are married with children, they speak both English and Spanish, they are largely computer literate, and they are more likely "to read *The Wall Street Journal* than *El Mundo*."²⁷

Summary of Hispanic Market Characteristics

- Most Latinos want to own a home that is decent, appealing, and located in a safe neighborhood. They want to leave behind something of value for their children.
- Hispanics prefer homes near relatives, work, schools, and public transportation. They look for homes that are built based on their cultural preferences. Architectural designs, for example, should integrate themes familiar to Latinos, such as the California mission style, Southwestern adobe, and tropical-Caribbean motifs.
- Amenities that attract Latinos include: space for future growth; garages that can be converted into additional rooms for larger or extended families; kitchens as the centers of family interaction, ideally visually open to other family gathering areas; outdoor space (patios) for barbecues, children's play areas, and fruit trees and vegetable gardens; community parks and plazas; and extended driveways for multiple cars.
- Hispanics typically prefer to communicate in Spanish or to obtain bilingual information; they generally respond well to simple, visual, short, friendly communications; they prefer one-to-one relations with trusted advisors; and they like to conduct business in places where they can feel comfortable. Communicating directly with Latinos reinforces brand loyalty and trust.
- Hispanics place a high value on family, children, tradition, hard work, and friendship. They enjoy food, music, dancing, entertainment, cultural events, futbol (soccer) and other sports; they frequently exhibit a strong sense of spirituality and community; and they are drawn to successful collaborative efforts. They embrace and cherish opportunities to get together with family, with family relationships ranking as the number one priority in their lives.
- To reach Latinos effectively, television programming presently works best. Television advertising can be most effective if it is engaging, thought-provoking, or alluring. Marketers also need to realize that Hispanics often listen to local radio stations for quick updates, and Spanish-dominant Latinos in particular are avid readers of newspapers and magazines, especially of foto novelas, i.e., "soap opera" cartoon strips.



Best Practice: Effective Outreach

In 2003, the Tucson HUD Office in Arizona provided a good example of what HUD can do to make homeownership a reality for low- and moderate-income families who might not even have dared to dream of owning a home.

For too long, the Voucher Homeownership Program – which enables low-income families to use their rental assistance to buy a home – was little known in Arizona. HUD staff working with the program saw an important need to provide accurate and complete information to Arizona communities on its tremendous potential. Realizing that not one Arizona housing authority was implementing the program, the author of this book, in his capacity as a HUD Operations Specialist, came up with a plan to help these local agencies overcome their reluctance to this new homeownership idea.

Through personal presentations to the housing authorities and a clearly written, non-bureaucratic guide to the Voucher Homeownership Program prepared by this book's author, Tucson HUD specifically addressed the tremendous benefits of the program and strongly encouraged housing authorities to begin implementing it. Often to their initial surprise, local housing authorities learned that many HUD-supported tenants could become successful homeowners with the help of HUD's Section 8 Vouchers.

The Tucson HUD office's efforts have been rewarded. On September 2002, the city of Yuma Housing Authority closed on the first HUD Voucher Homeownership loan in Arizona. Ms Martha Bouzanquet became the first person to become a homeowner in the state of Arizona under the Voucher Homeownership Program.

In 2003, the Housing Department of the County of Yuma also made its first Voucher Homeownership Loan. The new low-income homeowner in this situation was Rosalva Rodriguez, a former Section 8 rental voucher recipient and a HUD Family Self Sufficiency Program (FSS) participant. She moved into a newly constructed home in San Luis, Arizona without needing any supplementary assistance other than her own FSS savings.

Source: www.HUD.GOV/ Daily Message Archives, June 2, 2003

Best Practice: Innovative Loan Products for Immigrants



Established in the late 19th Century to serve the needs of European immigrants, Second Federal Savings Bank in Illinois now serves a new wave of Latino immigrants who work in Chicago. It is a pioneering bank in the use of Individual Tax Identification Number (ITIN) loans for immigrants. It began making ITIN mortgage loans in 1999 and has vastly expanded the program since then. It presently covers about 850 families, has a total value of nearly 100 million dollars in loans, and has experienced a default rate of less than 1%.

Second Federal Savings is among the few lending institutions that offer prime rates for both ITIN and alternative credit loans. The bank also absorbs the cost of mortgage insurance for many buyers and provides personalized services in order to avoid foreclosures and minimize losses for borrowers. For example, when a borrower cannot continue paying monthly mortgage payments, the bank may transfer the loan to a different family member or even give the borrower his or her money back.

Second Federal Savings has also partnered with the Mexican Consulate in Chicago and regional Latino brokers who cater to the Latino community. It participates in the New Alliance Task Force, a coalition made up of representatives from the FDIC, the Mexican Consulate, 34 banks, community-based organizations, and other public and private housing finance institutions. Through its involvement in the coalition, Second Federal Savings has led the way in the financial services industry in carrying out ground-breaking loan programs that use alternative IDs such as Matriculas and ITINs.

Source: Martha Argelia Martinez, University of Notre Dame
Esperanza Series of Homeownership Studies



Best Practice: Partnerships in the Private Sector

The Arvest banks are all Equal Housing Lenders and members of FDIC. Their involvement in Rogers, Arkansas, to help Latinos build assets and buy homes provides an outstanding example of the private sector using a combination of resources to increase homeownership opportunities for Latinos. The bank began these efforts a decade ago by establishing a partnership with Tyson, a local poultry producer, to provide banking and immigrant homeownership education in the workplace.

The poultry plants were facing a high turnover rate and were considering relocation. The bank created special loans to help immigrants build their credit history, and the poultry plants offered classroom space to provide financial literacy seminars at the work site. The plants also paid their workers to take the bank's classes on banking and homeownership during regular work hours.

According to an FDIC report, the bank had made 586 home loans and generated an estimated \$80 million in business. As late as 2005, Arvest had experienced zero defaults with these loans. Once the workers planted roots in the community through their home purchases, the poultry plants saw the turnover rates drop. One plant went from a turnover rate of 200% in 1992 to a turnover rate of 15% in 1999. The poultry plants stayed in Rogers and the town was able to keep millions of dollars in business and taxes in the region.

A majority of the immigrants in Rogers are now customers of this bank, which has responded by hiring additional bilingual staff members. The bank's senior management remained committed to the program and developed new ways to serve this population.

Source: CHCI Best Practices Brief and FDIC

Chapter Eight

Barriers to Homeownership

There needs to be a mortgage alternative which will qualify a wide swath of borrowers and simultaneously provide them with the loan options they require...enter a modernized and reinvigorated FHA. Everyone should have access to a safe, affordable mortgage product; and this should not change just because that person is a first-time homebuyer, a minority homebuyer, or a homebuyer with troubled credit history.

*Brian D. Montgomery, Former Federal Housing Administration
Commissioner, U.S. Department of Housing and Urban Development*

In spite of the housing crisis, Latinos now have many opportunities to own a home. However, they continue to confront many barriers.

Barriers Related to Characteristics of the Hispanic Population

- **The concentration of Hispanics in the service, construction, and farm labor sectors. Many Latinos that hold such jobs are paid low wages that are drastically affected by federal minimum income wage rates that do not keep pace with inflation over time**

A timely increase in the minimum wage will enhance the consumer buying power of most Hispanic low-wage workers. It will enable them to afford better housing conditions, accumulate savings, and help them in due course to make the leap to homeownership.

- **Lack of understanding and information about the difficult and often complex home buying and mortgage loan application process**

Prospective home buyers are not aware of their own financial capabilities, do not know the loan application requirements beforehand, and are not familiar with the many mortgage options available. Such lack of knowledge and awareness is especially true for Hispanic families for whom English is a second language and for those who believe that homeownership is either unaffordable or too complicated. Even when they understand English, however, many prospective Hispanic homeowners find the purchase of a home to be a daunting process.

Many Hispanics do not trust banks, lack banking relationships, and experience difficulty in finding a trusted advisor. Latino immigrants in particular are “unbanked” and many are uncertain about whether their residency status allows them to open bank accounts, establish credit, or obtain loans. Many lower-income immigrants are paid in cash, do not have checking accounts or credit cards, rely on alternative institutions such as payday lenders and fee-based check cashers, and therefore are unable to establish a credit history.

A considerable number of Hispanics – especially those with “thin credit files” – also believe they would not qualify for a mortgage when in fact, they would. For example, many Hispanics assume that large down-payments and perfect credit are required to buy a home.¹ According to a Freddie Mac survey, 51% of Hispanics believed that they needed an almost perfect credit rating to qualify for a mortgage and 40% thought that a down-payment of as much as 20% is required to buy a home.

Demystifying the home sales and mortgage loan processes, counseling and informing Hispanics in both English and Spanish, and hiring bilingual and culturally-sensitive real estate professionals to assist Hispanic homebuyers are three important steps that the housing industry can take to eliminate this critical information gap. Bilingual information adds value to the sense of trust and confidence that many Hispanic consumers feel when they have access to such information, and consequently, to affordable homes, loan products and services.

Barriers Related to Income and Housing Costs

- **The growing gap between incomes and the cost of homes**

This wide disparity results in Hispanics paying a disproportionate amount of their income for housing, living in dilapidated and overcrowded housing, and lacking savings to cover down-payment and closing costs. HUD researchers have concluded that some housing policies such as down-payment grants (including those that match homebuyer savings) currently assist low-income households in financing the purchase of a home. HUD, however, contends that the number of households assisted annually is small compared to the number of households that need (or could obtain) this type of assistance.²

Barriers Related to Characteristics of the Industry

- **Lack of bilingual and culturally-sensitive housing professionals**

Real estate sales and loan officers who can provide trustworthy advice and expert assistance are needed in order to attract and reach Latinos effectively. Latinos rely substantially on professional people that they can trust, speak their language, understand their needs, and take the time and effort to help them.

- **Lack of effective outreach to the Hispanic market**

Hispanics lack extensive information regarding the various affordable mortgage loans and homeownership assistance programs that are now available and can help them overcome the financial barriers to homeownership.

Lenders need to provide brokers and borrowers improved access to, and complete information about, their affordable loan products. Loans targeting low and moderate-income homebuyers should be developed in a way that compensates those who make the loan appropriately, close it promptly and efficiently, and ensure that the borrower will be able to pay it successfully over the long run. Finally, homeownership assistance

programs need to be streamlined in order to make them both practical and relevant to the mainstream market.³ According to a joint study conducted by the National Council of La Raza and NAHREP, affordable products become irrelevant in the marketplace if they are not efficient and cost effective for lenders to use and customers to access.

Barriers to Expanding the Supply of Affordable Housing

- **Lack of an affordable housing supply in communities that discriminate, resist, or give low priority to the housing needs of Hispanics**

Such communities carry out policies that attract Latino workers but fail to provide decent and affordable housing that is located close to their jobs and basic amenities. HUD researchers found a lack of such housing for Hispanics, particularly in the West and Northeast regions of the country. Although affordable homes are available in these regions, many of these homes are generally in poor condition and located in unattractive neighborhoods.⁴

- **Zoning and land use policies that limit density and the availability of affordable housing**

Such restrictions affect many localities in the country, especially in California.

- **Gentrification in areas where increases in the value of Hispanic-owned homes cause burdensome increases in property taxes**

Gentrification threatens the loss of these homes and causes many Latino families to move into communities that are located further away from their jobs.

Barriers Related to Lack of Information and Coordination of Resources

- **Lack of adequate homebuyer education and counseling**

Adequate homebuyer education and counseling is needed to help Hispanics improve their credit histories, gain access to credit, and become fully familiar with the home purchase process. In particular, low- and moderate income Latinos need information on the homeownership assistance programs that are now available throughout the country. Financial literacy, homebuyer education and counseling programs need to be directed at the Hispanic community through specialized outreach efforts and by offering materials and instructions in both English and Spanish.⁵

- **Lack of coordination in replicating successful public and private homeownership initiatives**

Homeownership initiatives that involve the combined use of financial and other types of resources should be well coordinated and replicated widely to make it easier

for Latinos to purchase and finance a home. Although government agencies and local communities have developed various programs to help move Hispanic households into homeownership, HUD researchers believe that the success of many of these programs has yet to be firmly established.⁶

Strategies for Overcoming Homeownership Barriers

Overcoming all these homeownership barriers requires that realtors, lenders, and housing counselors provide prospective Hispanic homeowners the information they need to make sound financial decisions. Persistent myths and misinformation currently prevent many Hispanics from even considering homeownership and lead others to make unwise choices.

For example, according to Fannie Mae's 2002 National Housing Survey, 39% of Hispanics believed the myth that they needed to pay 20% of the cost of a home up-front; at the same time, well over 60% of all Hispanics believed erroneously that they needed to have stayed at the same job at least five years to qualify for a mortgage.⁷

Fannie Mae's survey found that Hispanics who are not comfortable with English are likely to be shut out of the housing market, as language proficiency affects not only how Hispanics learn about homes for sale, but also where they go to get a mortgage loan. The survey found that even Hispanics who are proficient in English trail the general public in having accurate information about the mortgage process. Bridging this information gap is a key strategy that must be applied immediately to help achieve higher rates of Hispanic homeownership.



Summary. Disseminating information and coordinating homeownership resources effectively are critical to the elimination of homeownership barriers. Part of the problem is the lack of information that exists among housing providers regarding what they can contribute jointly to the homeownership process. Because housing providers sometimes do not trust each other, they can easily overlook the collective capacity they have for meeting the housing needs of Latinos.

Indeed, various housing industry groups, nonprofit housing organizations, and government agencies have already forged strong and viable partnerships that are making it possible for thousands of Americans to achieve homeownership. Promoting the establishment of such partnerships is the main reason the Congressional Hispanic Caucus Institute and lenders such as Citigroup have held local events that celebrate homeownership. These events provide a great opportunity to publicly recognize both the families that have fulfilled their dreams of homeownership and the various partners that helped these families buy a home.

Strong collaborative efforts are therefore needed in order to establish good communications and rapport among all housing advocates and providers. Forging and cementing successful homeownership partnerships results in a win-win situation for everyone involved. Community-based housing organizations have proven themselves over time, work hard to develop capacity and build up resources, and are passionate about helping Latinos achieve homeownership.

Conversely, realtors, lenders and government housing agencies often have the funds, the expertise, and an equally strong desire to help Latinos buy a home. What is needed then is for all housing providers to cooperate closely with and trust each other in order to help Latinos achieve homeownership. Significantly, most successful champions of homeownership are characterized by the passion, commitment, and dedication they powerfully exhibit towards making a difference in the lives of those they serve in their communities.

Building Trust Among Trusted Advisors

Collaboration begins by building trust, the trust that is essential to forging strong partnerships - to approach others successfully in order to accomplish a common goal. Division of effort results when there is lack of trust and no one is willing to partner for fear of losing a share of the market. Those seeking to partner, on the other hand, work earnestly together in order to achieve mutually beneficial goals.

That is how partnerships begin, when a realtor, broker, lender, or community housing advocate recognizes the benefits that result from the meshing and layering of resources, and then takes the crucial step of recruiting partners. Such individual initiative, while challenging and grueling, ultimately leads to successful joint efforts by enterprising housing providers. These providers typically establish trusted networks of referral organizations within their own communities in order to best coordinate and augment their services.

These collaborative efforts typically involve lenders, realtors, nonprofit and government housing professionals who decide to join ranks on the basis of their ability to follow through with clients. They treat their clients with patience, respect, and cultural

understanding. The provider-specific networks they establish tend to be highly coordinated, comprehensive, and based on long-standing relationships and trust.⁸

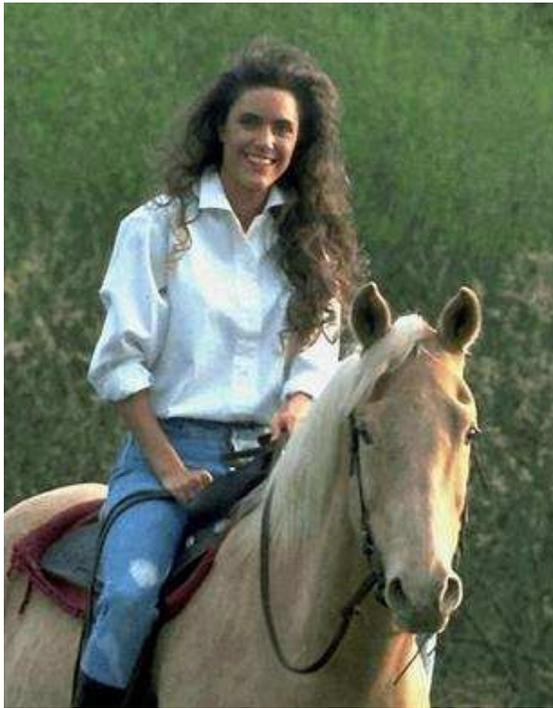
Presently, however, these partnership efforts tend to be disjointed, few in number, or even nonexistent. Such uneven results often lead to an often told situation in which different housing providers begin to question why a particular lender, for example, is able to work well with realtors, government officials, and nonprofit groups in offering its loan products only in a particular locality but not in adjacent geographic areas.

Indeed, housing providers who work in isolation are most likely to be unaware of many of the products and services available within their own organizations, and thus be equally unaware of what is available elsewhere. They often believe that if only they can do more on their own and stretch their efforts beyond what they already do well, they can meet additional needs for construction, for rehabilitation work, for home sales and loans, or for homebuyer education and counseling services. Such efforts are sometimes successful but often they wind up reinventing the wheel, fragmenting the coordination of services across metropolitan areas, and failing to use all of the resources already at their disposal - especially those which can help avert foreclosures and help revitalize housing and distressed communities right now.

In contrast, even informal partnerships that manage to establish a close working relationship among the partners can be highly successful. For example, HUD points out that in San Antonio, TX, service providers believe that the makeup of their work demands that professionals and non-profit organizations develop and maintain strong partnerships within the industry. Housing counseling agencies in San Antonio continuously approach lenders and real estate agents to work jointly with them. Real estate professionals, in turn, are constantly prospecting for new clients and referring those who need more home buyer preparation to the housing counseling agencies.⁹

Partnerships most likely to be successful in reaching out to prospective Hispanic homebuyers and communities are those that involve bilingual and cultural-sensitive stakeholders.

National trade associations such as NAHREP help forge these partnerships through their national, regional, and local gatherings and conferences. Overall, such strong collaborative efforts among housing providers are critically needed nationwide in order to successfully tap and leverage all the resources that are available to help prospective Latino homebuyers and communities.



Best Practice: Financial Literacy and Homebuyer Education

There are many misconceptions about the homebuying process within the Latino community, in addition to issues of mistrust and language and cultural barriers. Through La Buena Vida broadcasts, Freddie Mac along with Chevy Chase Bank, Hispanic Committee of Virginia (HCV), and CASA de Maryland, are reaching the fast growing Latino community by providing accurate, reliable information about the home buying process through Telemundo's community outreach channels.

Freddie Mac carried out an affordable lending initiative with Chevy Chase Bank, Hispanic Committee of Virginia (HCV), and Casa de Maryland to provide first-time homebuyer education and CreditSmart Español® financial literacy training to underserved Latino consumers in the Metropolitan Washington D.C. area market, including Northern Virginia and Maryland. The initiative will expand Chevy Chase Bank's outreach, education and mortgage origination in the Latino communities. Freddie Mac's Get the Facts! Toolkit will be used as an addition to HCV's current educational programs to reach potential first-time homebuyers. Get the Facts! is a marketing and outreach campaign, coupled with a workshop designed to break down barriers of misinformation that keep many consumers from considering homeownership.

The core element in Get the Facts! is the workshop, which helps community members explore the possibility of homeownership in an interactive, friendly, and open environment. Participants are encouraged to ask questions as workshop facilitators help separate fact from fiction. By the end of each workshop, participants are expected to feel empowered and believe that they too can achieve the dream of homeownership.

Source: Freddie Mac

Chapter Nine

Homeownership Policies and Strategies

The Helping Families Save Their Homes Act advances the goals of our existing housing plan by providing assistance to responsible homeowners and preventing avoidable foreclosures. Last summer, Congress passed the HOPE for Homeowners Act to help families who found themselves "underwater" as a result of declining home values -- families who owed more on their mortgages than their homes are worth. But too many administrative and technical hurdles made it very difficult to navigate, and most borrowers didn't even bother to try.

This bill removes those hurdles, getting folks into sustainable and affordable mortgages, and more importantly, keeping them in their homes. And it expands the reach of our existing housing plan for homeowners with FHA or USDA rural housing loans, providing them with new opportunities to modify or refinance their mortgages to more affordable levels.

President Barack Obama, May 2009

In 2005 the Congressional Hispanic Caucus Institute (CHCI) published *An Assessment of Hispanic Homeownership: Trends and Opportunities*. The study laid the foundation for preparing this comprehensive primer on Hispanic homeownership. It highlighted many homeownership strategies and best practices that are being implemented in various parts of the country to help increase homeownership opportunities for Hispanics.

The findings of the CHCI study complement those of two other CHCI publications: *Focus Group Findings: Cross-Site Report*, and *HOGAR Best Practices Brief*. Together, these three reports identify a comprehensive array of policies, strategies and best practices that - if expanded and carried out effectively - will help increase the rate of Hispanic homeownership nationwide. Some strategies require specific changes in government policy or practice; others require greater leadership and focused direction from both the public and private sector. To be successful, however, all strategies require increased efforts and improved collaboration and coordination among all three sectors - industry, government, and nonprofit agencies.

Recommended Policies

As the housing crisis deepened, Congress began to enact laws to help homebuyers facing foreclosure and to reinvigorate the housing sector. Congress and the Federal Reserve have not only taken action to combat predatory lending but have also worked hard to push more capital into low- and moderate-income housing, culminating with passage of the Housing and Economic Recovery Act of 2008 (HERA). As indicated earlier, HERA adopted several of the policy recommendations formulated here. These recommendations had also been previously featured in *The Potential of Hispanic Homeownership: Challenges and Opportunities*, an abridged version of this book, which began to be widely circulated in 2007.

Accordingly, housing policies that are more likely to be acted upon, or which are just beginning to be adopted, are listed first and given top priority.

Effective Government/Private Sector Efforts

- **Enact a new law that establishes an affordable national housing trust fund.**

Such legislation would establish a national housing trust fund that is financed by a portion of Fannie Mae, Freddie Mac, and FHA funds, and dedicates a fair and equitable share of the funding to help meet the homeownership needs of America's hard-working, lower-income individuals and families.

The recently enacted HERA legislation adopted the establishment of a national housing trust fund which makes available around \$500 million a year to provide more low-income rental and homeownership housing. Up to 10% of the funding is to be used for the benefit of producing, preserving, or rehabilitating homeownership housing for very low-income families, including such funds as down payment and closing costs assistance, and assistance for interest-rate buy downs. Once viably funded, the trust must be used to provide more low-income rental and homeownership housing.

- **Enact a new law that expands the construction of housing nationwide through homeownership tax credits.**

Such legislation would provide investors with a homeownership tax credit of up to 50% of the cost of constructing a new home or rehabilitating an existing property. The tax credit would increase the supply of affordable homes by helping to bridge the gap between the development cost and the price at which these homes can be sold in many lower-income communities.

The Housing and Economic Recovery Act of 2008 adopted a homeownership tax credit, but one that is aimed directly at helping first-time buyers. The National Association of Realtors estimates that 2.5 million first-time homebuyers would take advantage of this homebuyer tax credit and help push up home sales. The new credit was increased to \$8,000 in 2009, can be used as part of a down payment on an FHA loan, and does no longer require repayment.

The participation of first-time homebuyers, who make up 40% of all prospective home buyers, is expected to reduce the inventory of unsold homes, stop the decline of home prices in hard-hit markets, and strengthen mortgage portfolios held by lenders and investors, thus helping to stabilize the entire financial system.

- **Enact a new law that expands the use of Employer-Assisted Housing (EAH) programs.**

Such legislation would expand employer-assisted housing programs by offering a tax credit for employers who invest in affordable homes for their workers. Such programs typically include marketing and outreach services to employees, for example, homebuyer education and counseling and down-payment and closing costs assistance.

These programs especially benefit employers who wish to retain employees and to reduce excessive training costs caused by high rates of turnover.

- **Expand the benefits of deducting residential mortgage interest expenses to all taxpayers by providing a tax credit for low- and moderate income homebuyers.**

Such a tax credit would enable a greater number of new homeowners to benefit from one of the provisions that Congress included in the omnibus tax bill it enacted in December 2006. The new provision allows lower- and moderate-income homebuyers for the first time to deduct the cost of mortgage insurance premiums on their federal income tax returns.

Because more than half of all new Latino homeowners pay for mortgage insurance, the new legislation opens the door for many Hispanics to afford homes. The new law makes all mortgage insurance premium payments deductible for homeowners with adjusted gross household incomes of \$100,000 or less. The tax relief was expected to help thousands of home buyers to finance a home with an affordable mortgage and reduce its costs.¹ The new law is intended for taxpayers who are able to benefit by itemizing their deductions from their federal income taxes. The average savings for families that qualify for the deduction is estimated at \$300 to \$350.



Private mortgage insurance offers a simple, safe, and smart way to buy a home by making mortgages with low down-payments possible. With it, homebuyers can purchase or refinance a house with as little as 5%, 3%, or even no money down. A low down payment loan with mortgage insurance (MI) provides a sense of stability and security to homeowners. Normally, mortgage insurance can be canceled after the owner's equity in the home reaches 20%.

A single loan with mortgage insurance also offers the following benefits versus a piggyback loan:

- MI premium payments are fixed and not affected by rising interest.
- MI payment period is typically shorter than term of second lien.
- MI helps preserve access to future home equity.
- Only one loan is needed, which typically speeds up the home buying process.
- MI is now tax-deductible.

The mortgage interest deduction, on the other hand, is available only to taxpayers who already benefit by itemizing their deductions when they file their taxes. Indeed, about 90% of the benefits from the existing mortgage interest tax deduction go to those with incomes over \$40,000 a year.²

All taxpayers should be entitled to a tax benefit for any mortgage interest paid during the year. This is one major homeownership benefit that many low- and moderate-income homeowners lack because they do not benefit by deducting mortgage interest payments under current income tax provisions. In 2002, for example, only 35% of all taxpayers benefited from the mortgage interest deduction.

The Housing and Economic Recovery Act of 2008 addresses the need for a tax benefit for homeowners who do not itemize on their tax returns by providing a \$500 standard deduction for property taxes for individuals and \$1,000 for joint filers. The benefit is intended to benefit seniors and low- and moderate income households who opt for the standard deduction but also pay local and state property taxes.

- **Standardize Federal regulatory provisions related to Individual Tax Information Number (ITIN) Lending.**

The National Association of Hispanic Real Estate Professionals (NAHREP), a trade association with 15,000 members in over 60 affiliate chapters in 48 states, strongly believes that regulations related to ITIN lending need to be standardized. Such uniform regulations would provide clear guidance for banks and financial institutions to use ITIN's in conjunction with the Matricula Consular, or other similar forms of identification issued by foreign governments, in order to extend financial services, including mortgage loans, to immigrants regardless of immigration status. The Internal Revenue Service currently issues ITINs regardless of immigration status because both resident and nonresident aliens may have U.S. tax return and payment responsibilities.

NAHREP estimates that about 375,000 undocumented immigrant households are eligible for mortgages. It calculates that selling homes to these immigrants would generate \$85 billion in new mortgage originations.

In 2006, the *New York Times* real estate magazine reported that baby boomers were expected to sell about 34 million homes over the next two decades. It wondered who would buy these homes, since native-born Americans alone would not be growing in sufficient numbers to buy them no matter how slow even then the homes were expected to go for sale on the market. The Times predicted that the buyers could well turn out to be undocumented immigrants since about 12 million of the 35 million foreign born people in America lack legal residency status. Standardizing federal regulatory provisions related to ITIN numbers would enable these immigrants to purchase many of these homes.³

Lenders in about 40 states already grant mortgages to customers using ITINs. ITIN loans are popular because lenders have found that many ITIN customers earn solid wages, and have stable employment histories and excellent payment histories on debt obligations. According to Geoffrey F. Cooper, director of emerging markets for MGIC Investment, home buyers with ITIN mortgages “perform like ‘A’ credit borrowers,” and they qualify for MGIC’s favorable A-premium insurance rates because they are so dependable.⁴ Of the 1,800 ITIN home mortgage loans MGIC had insured, there had been only one 30-day late payment.⁵

- **Expand the use of local, state, and federal homeownership programs.**

Such programs include HUD’s Federal Housing Administration (FHA) mortgage-insured loan products, HUD’s American Dream Downpayment Initiative, HUD’s Voucher Homeownership Program, HUD’s Community Development Block Grant (CDBG) and HUD’s HOME Investment Partnerships (HOME) programs, and USDA’s 502 Homeownership Program for low- and moderate-income families.

FHA loans have benefited thousands of Hispanic families. FHA’s modernization is expected to increase the number of FHA loans to Hispanics by restoring a choice to homebuyers who cannot qualify for prime financing and offering more options for all potential homebuyers. It is intended to reach an increasing number of families in need of safe and affordable home financing. FHA insurance protects lenders against loss, enabling its private sector partners to offer market-rate mortgages to homebuyers who would otherwise not be served or remain underserved. Furthermore, FHA protects the homebuyer by offering foreclosure prevention alternatives that it qualifies as unparalleled in the industry.

FHA’s modernization legislation, enacted as part of The Housing and Economic Recovery Act of 2008, increased and simplified its loan limits to prevent the FHA from being priced out of many housing markets. Before, few buyers of homes in high costs areas had been able to use FHA financing because FHA’s loan limits were not high enough to meet the cost of most homes in those areas.

It should be noted that the original FHA legislation would have created a new, risk-based insurance premium structure that would match the premium amount with the credit profile of the borrower. It would have replaced the current structure, which now provides a standard premium amount for all borrowers, and still protect the soundness of its Insurance Fund. The Housing and Economic Recovery Act of 2008 (HERA), however, places a moratorium on the use of risk-based pricing on FHA loan guarantees for one year.

The risk-based insurance premium structure for FHA was intended to benefit lower-income Hispanic families in particular since recent FHA data showed that home buyers with lower incomes have slightly higher FICO credit scores than buyers with larger incomes, and would therefore pay lower premiums. In fact, the default rates of Hispanic FHA-insured borrowers have historically tended to be lower than or similar to those of other FHA-insured borrowers. For example, for loans originated between 2001 and 2005, the share of Hispanics having payment difficulties (ever having a 3-month delinquency) or experiencing foreclosure was slightly lower than that of other FHA borrowers.

With respect to loans originated in 2006 and 2007, the share of Hispanics having payment difficulties or experiencing foreclosure was about the same as that of other FHA borrowers. These findings support the strong likelihood that many Hispanics would perform better if they had greater access to FHA loans rather than to subprime or exotic loans. The FHA data clearly demonstrate the strong desire and perseverance of Hispanics to pay for and keep their homes.

Under HERA, FHA will be underwriting and pricing loans for applicants with thin or "nontraditional" credit histories without reference to credit scores, giving heavier emphasis to rent and utility payments as well as to other measures of creditworthiness. This should benefit Hispanics since a recent Federal Reserve Study found that married individuals and immigrants perform better than predicted by their conventional or traditional credit scores. The Federal Reserve finding provides an important rationale for FHA's use of an alternative credit scoring mechanism to extend credit to Hispanics with thin credit files since most immigrants are Hispanic, half of all Hispanic households earning over \$100,000 are immigrants, and more Hispanic households are married with children (38%) than non-Hispanic households (23%).

Ideally, FHA's underwriting and pricing of loans with no credit histories should measure rent and utility payments as well as other measures of creditworthiness in a way that approximates the quality and precision achieved by the Hispanic National Mortgage Association's own automated underwriting system for such loans. This would ensure that Hispanic borrowers with "thin" files would be charged premiums that more correctly correspond with their true creditworthiness.

HUD's HOME Program is the largest federal block grant program which promotes affordable housing programs and provides eligible families with financial assistance to purchase or rehabilitate their homes. Each HOME dollar allocated to a local jurisdiction traditionally leverages more than three dollars from other public and private sources. HUD's American Dream Downpayment Initiative (ADDI) for first-time homebuyers helps to reduce and overcome homeownership barriers such as high down-payment and closing costs, which prevent low- and moderate-income potential homebuyers from entering the market. This new program has already helped more than 21,000 families to become homeowners.

USDA's homeownership programs have been particularly effective in meeting the needs of Hispanics in rural areas. HUD's Voucher Homeownership Program, on the other hand, is presently being used by only about a third of the local housing authorities in the country. Because this program can assist many Hispanic lower-income families, especially female heads of households, HUD needs to exert greater leadership in promoting its use throughout the country. The voucher homeownership program is extremely beneficial because:

- 1. It can expand housing opportunities of Section 8 voucher holders beyond the rental market by allowing them to use their assistance to purchase their own homes.** Such expansion is especially true in "hot" rental markets where tenants have difficulty paying high rents - but can afford a monthly mortgage - as well as in areas where few landlords participate in the Section 8 program.
- 2. It makes homeownership part of a "package" that will benefit the tenant for several years by encouraging the use of vouchers in tandem with self-sufficiency, housing and financial counseling, and homeownership assistance programs, including HUD's Family Self-Sufficiency Program, Individual Development Accounts, and local First-Time Homeownership Programs that are typically supported by CDBG and HOME funds.**
- 3. It can be successful throughout the nation because many local housing authorities are eager to establish local housing partnerships that support low-income homeownership.**

Since the program's inception in 2000, more than 7,500 former public housing residents have become homeowners. However, as more local housing authorities recognize the merits of this program and carry it out across the country, their efforts can result in an even greater number of new homeowners in urban areas.

New homeownership programs are also constantly emerging at the local and state government levels. For example, the Massachusetts Housing Partnership has expanded its SoftSecond Loan Program to eligible first-time homebuyers in various cities across the state. Although income requirements vary by locality, four-person households in some communities can qualify with incomes up to \$90,000. Income-qualified buyers need to complete a home-buyer course to obtain a state-subsidized second mortgage, making no payments during the first nine years and only interest payments in the 10th year before paying the principal the following year.⁶

These assistance programs are crucial in helping many Latinos buy a home. Indeed, most housing studies point out that a lack of savings for down-payment and other costs are considered greater barriers for Latino home buyers than low incomes or even poor credit. As indicated earlier, of the total 1.4 million mortgage loans made to Latinos in 2005, about 500,000 loans (or 35%) were made to Latino households with below-median incomes.

To use these programs effectively, they must be expanded, funded adequately, and given greater direction and leadership. In addition, improving the efficacy of the Federal Housing Administration is paramount to increasing the rate of Hispanic homeownership.

- Promote the availability of affordable, decent, and appealing rental housing units for low- and moderate income families.**

Many Hispanics cannot afford or are not ready to buy a home now or in the near future because they earn meager wages, lack affordable housing in their communities, and have little access to information about the homeownership assistance programs that are available. The improved living conditions, safer neighborhoods, and more stable fam-

ilies and communities that are normally associated with homeownership should therefore similarly prevail in rental housing.

Expanding homeownership opportunities through the construction and remodeling of affordable homes also opens up rental housing opportunities for many Hispanic families. Currently, because of unstable economic conditions many moderate- and middle-income families choose to continue living in rental units that would otherwise be available and affordable for lower income families.

Furthermore, in cities such as Phoenix, Arizona, nearly 20% of the recipients of Section 8 rental vouchers could not use their vouchers in recent years because of a lack of available rental housing units under the Section 8 program. If many renters in urban areas like Phoenix were able to move to homeownership, they would free up their rental units for others, including Section 8 voucher recipients and other low- and moderate income families.

As indicated earlier, The Housing and Economic Recovery Act of 2008 adopted the establishment of a national housing trust fund that is to make available around \$500 million a year to provide more low-income rental and homeownership housing. Most of its funding is to be used for the benefit of producing, preserving, or rehabilitating rental housing for very low-income families.

The new law also increases the low-income housing tax credit which helps finance the development of rental housing for low-income families. Under current law, there is a state-by-state limit on the annual amount of federal low-income housing tax credits that may be allocated by each state. The new law increases these limits.

- **Replicate policy strategies to increase the supply of affordable housing.**

Such policy strategies include locally proactive inclusionary zoning and land use policies, housing trust funds, community land trusts, and policies that foster the rehabilitation of lower-end housing stock especially in communities that are being revitalized. These strategies also include promising alternatives such as high-quality manufactured housing and limited equity cooperatives.

The growth of “Latino new urbanism” communities can also add to the supply of affordable housing by developing housing units on smaller lots. Such communities incorporate diverse types of housing designs and land uses within a neighborhood; promote compactness, community closeness, and social interaction in public places such as parks and plazas; and accommodate unit types and site planning for extended family living arrangements and income-generating opportunities.⁷

- **Evaluate the effectiveness of public and private sector homeownership loan and assistance programs.**

An ideal mortgage loan is transparent and consumer-friendly; in addition, its interest rate and its terms and conditions are directly related to a family’s financial capacity to pay over the long run. A good example is a Federal Housing Administration insured loan which offers very low down payments, lower rates, is easier to qualify for and is often assumable, and has no prepayment penalties. Other similar loans include VA, USDA rural homeownership loans, HUD’s Voucher Homeownership Program, and Fannie

Mae's My Community Loan Program. The Fannie Mae My Community Loan Program, for example, includes the following features:

- No minimum borrower contribution.
- Up to a 40-year term.
- Options for lower initial monthly payments with a 5-year or 10-year interest-first period with a fixed rate amortizing over the remaining term of the loan.
- Funds for down payment and closing costs can come from a wide range of sources, such as a gift from a family member; a gift, grant or loan from a nonprofit organization, municipality or employer; or the borrower's own funds.
- Loan-to-value ratios permitted up to 100 percent for 1-unit properties.
- Extra flexibility on income sources including consideration of boarder income.
- Cash reserves at closing not required in most cases.
- Part-time and overtime income is considered.
- Purchasing a single-family home (including a condo or co-op), a two-, three-, or four-family home to live in one unit and rent out the others (minimum 3 percent borrower contribution for two- to four-unit properties).

Until recently, however, HUD researchers had not conducted sufficient research or had enough evidence on the effectiveness of such programs ⁸ HUD must therefore undertake a robust evaluation of these programs to ensure that resources devoted to expanding homeownership are well-targeted and used.

HUD researchers have concluded that many low- and moderate-income households earn enough income to buy and finance a home with the help of financial assistance programs. Other researchers also offer some evidence that affordable lending programs, particularly low down payment loans, are likely to increase the propensity to own for underserved populations, for example, by 27% for young households and 21% for African Americans.⁹

HUD researchers, however, maintain that the number of households assisted through such programs is fairly small relative to the number of households that need this type of assistance.¹⁰ HUD should therefore assess the effectiveness of these financial assistance programs by quantifying the extent to which these programs have benefited intended program recipients and then determining how much more such assistance is needed to meet their needs effectively.

HUD does acknowledge that between 1993 and 2005 Hispanic homeownership alone grew by more than 10 percentage points. Thus, even though efforts to help Latinos achieve homeownership have been broadly successful, HUD has concluded that not enough is yet known about what approaches are most successful in different circumstances.¹¹

A HUD study in 2009 did find that borrowers who had purchased homes from 2001 through 2005 with HUD's HOME or American Dream Down Payment Initiative (ADDI) had lower average foreclosure rates than a similar set of borrowers who did not

have down payment assistance. Given the evidence provided, the HUD report shows that programs can be carefully developed and managed to help eligible families achieve sustainable homeownership.¹²

Effective Programs and Services:

- **Expand access to homebuyer education and housing counseling.**

Homebuyer education and housing counseling that is culturally-sensitive plays an important role in preparing Hispanic homebuyers to save, improve their financial management skills, establish sound credit or repair credit problems, qualify for a mortgage, and responsibly buy and maintain their homes. Congress should provide HUD with at least \$100 million annually to support housing counseling programs across the country. Portions of this increase should be allocated to fund foreclosure prevention and special outreach efforts to vulnerable populations, including minorities.

Housing counseling programs prepare families for buying their first homes by assisting them in making well informed and sound financial choices. Housing counseling can also help families steer clear of predatory practices by helping them avoid inappropriately higher-cost loans that can place them at great risk of foreclosure.

Home buyer education and counseling usually includes personal guidance during the purchasing process and basic money management, banking, or credit seminars. Overall, enlisting and involving trusted advisors, including real estate agents, housing counselors, faith-based institutions, family and friends is considered critical to successful home buyer education and counseling efforts.

- **Expand asset-building strategies such as individual development accounts and HUD's Family Self-Sufficiency Program.**

According to HUD studies, a little savings can go a long way toward enabling homeownership. HUD has specifically found that the largest impact on the probability of homeownership is associated with savings of less than \$1,000 and that savings above that amount only moderately increase the likelihood homeownership.¹³

Households tend to save because they wish to attain an important financial goal such as homeownership. Thus, policy strategies that foster savings through the establishment of individual development accounts can spur homeownership. Such accounts often include the use of earned income tax credits and accumulated savings that can be applied to the purchase of a home. They complement credit-repair and financial literacy education efforts by providing incentives and a convenient way for families to accumulate savings that can be used to cover closing and down payment costs.

One such program is *Hispanic America Saves*, which is made up of nonprofit, corporate, and government groups that help Latinos save and build wealth.¹⁴ Such savings programs need to be widely publicized, expanded, and used. Research studies have demonstrated that a lack of savings for down payment and other costs are must more important constraints for Latino and other minority home buyers than low incomes or even poor credit. Asset-building programs help home buyers learn how to save and budget

well, establish good credit, and gain access to financial assistance programs that will help them cover the up-front costs of buying a home.

In addition, a HUD study in 2009 entitled “Rates of Foreclosure in HOME and ADDI Programs” found that home buyers who had greater equity in their homes through down payment assistance and borrower cash (savings) experienced lower foreclosure rates. With such borrowers having greater equity in their homes from the very beginning, their monthly mortgage costs are reduced, and they have a stronger incentive to maintain homeownership through their proven capacity to generate savings.

Effective Industry Practices:

- **Expand the use of non-traditional and culturally-appropriate automated underwriting standards, improved specialization, and user-friendly loan products.**

For example, as a result of improved and automated underwriting standards and industry specialization in funding, origination, and servicing, the average fees and points charged in originating 30-year fixed-rate mortgages have been lowered from more than 2% in the early 1990s to about 1.3% of the loan’s amount in the early 2000s.¹⁵ Accordingly, expanding the use of these industry practices will make it easier for prospective Hispanic homeowners to gain access to more affordable and user-friendly mortgage loan products.

According to HUD, Latinos have also achieved considerable progress in overcoming barriers in the mortgage financing process.¹⁶ Automated underwriting systems are also now available to help Hispanic families with a nontraditional history of financial responsibility qualify for better loans. An increasing number of lenders are also streamlining the process for making these loans and for using homeownership assistance programs effectively. Finally, lenders are beginning to create market-based incentives for loan officers and brokers to use loans targeted at low- and moderate-income families.

- **Establish a secondary market for immigrant home buyers.**

The establishment of such a market complements the policies of lenders who are already making mortgage loans to qualified immigrant borrowers through the use of their Individual Tax Identification Numbers (ITINs). Such policies enable immigrants, regardless of immigration status, to obtain mortgage loans when they use their ITIN along with the Matricula Consular or other forms of identification issued by foreign governments.

These potential homebuyers often have the capability, but not the opportunity, to achieve homeownership. NAHREP currently estimates that about 375,000 undocumented immigrant households are eligible for mortgages. It calculates that selling homes to these immigrants would generate approximately \$85 billion in new mortgage originations. The opportunity to purchase a home would strengthen the connection and contributions of these newcomers to their communities.

Many undocumented immigrants are already buying homes in the United States. In North Texas, for example, undocumented borrowers are now obtaining ITIN loans as a result of some entry homes becoming available for less than \$100,000. Rick Troutman,

President and CEO of HispanicLending.com, estimates that fewer than 1.0% of buyers using ITINs default, in contrast to 3.7% of conventional buyers.¹⁷ In addition, Texas Bank registered only three ITIN loan foreclosures over a period of four years while Second Federal Savings in Illinois reported a default rate of only 1% since 1999.¹⁸ The Mortgage Guaranty Investment Corporation likewise reports that of the 1,800 ITIN loans it had insured as of 2006, there was only one 30-day late payment.¹⁹ Overall, NAHREP reports that the delinquency rates for taxpayer identification loans were 1.2% or lower in 2006, compared with about 3.5% for other home loans.

- **Use non-traditional credit scoring mechanisms to more accurately determine the creditworthiness of Hispanics, including using remittances as a basis for credit.**

Traditional credit scoring techniques fall short of accurately portraying Hispanic credit-worthiness. For example, to better gauge the creditworthiness of Hispanic immigrants, the housing industry should also measure remittance patterns for Hispanic consumers who send at least 10% of their income to their relatives in their homelands every year.²⁰

In 2007, wire transfers to Mexico alone reached nearly \$24 billion, more than five times the amount sent 10 years earlier.²¹

Remittances should therefore be viewed as a form of payment toward an unsecured debt obligation. Once that takes place, thousands of Hispanics would earn substantially higher credit scores and gain greater access to loans.

The Hispanic National Mortgage Association (HNMA), a new for-profit mortgage company, has already created an automated underwriting system that enables it to offer loans to Hispanic borrowers on the secondary market. Its web-based automated underwriting system takes remittances into consideration as well as multiple borrowers, secondary cash income, income from different jobs, and on-time performance in rents, phone bills, and utility accounts.²² The system also provides more flexibility on household debt to income ratios and down payments, allowing household debt to go as high as 45% of monthly household income and requiring less cash upfront.²³

HNMA is specifically targeting three market segments: taxpaying residents who do not currently have a Social Security number, persons with a Social Security number but no FICO score, and persons whose traditional credit scores significantly underestimate their true creditworthiness. HNMA's goal is to enable its target borrowers to get single-digit interest rate loans instead of having to settle for subprime loans at higher interest rates. HNMA estimates that about \$300 billion of potential U.S. mortgages do not get made annually as a result of lenders' inability to analyze the "non-traditional income structures" or "non-traditional credit histories" of recent immigrants.²⁴ It firmly believes that mortgage products and systems like its own are creating origination efficiency and profitability within an industry that was thought until recently to consider Latino loans as far too costly, time consuming, and problematic. According to HNMA, Latinos are more brand-loyal, pre-pay their mortgages far less frequently, and in general perform better in making monthly mortgage payments than non-Latinos, all of which adds tremendous value to loans made to Latinos in the secondary market.

Wells Fargo's Easy to Own (SM) Remittance Mortgage Program is an example of

a recent pilot loan product that was created exclusively for consumers who may have non-traditional credit histories and have a demonstrated history of using remittance services is. The program was to provide up to 100 percent financing on a home loan with no down payment requirement and was to be made available in California, Arizona, Texas, Nevada, and Minnesota.²⁵

As indicated earlier, new credit scoring mechanisms that take into account a borrower's payment history, the length of the history, and the type of payments the borrower makes, for example, rent, gas and phone bills, help expand the availability of mortgage financing to borrowers with little or no traditional credit history. Another financial institution, First American CREDCO, designed Anthem Suite, a new set of credit reporting tools that is used to expand the availability of mortgage financing to loan applicants with a limited credit history.²⁶

The big three companies in the consumer credit information business - Equifax, Experian and TransUnion - have jointly produced VantageScore, a model that scores consumers consistently across all three companies. The creators of VantageScore consider it highly predictive and assert that it effectively addresses consumers with thin credit files. Fico Expansion Score and PRBC (Payment Reporting Builds Credit) also represent new credit scoring mechanisms. Borrowers who can potentially benefit from using these credit scoring systems include Latino young homebuyers, recent immigrants, female heads of households, and homebuyers in underserved communities.

A 2007 Federal Reserve Study found that married individuals and immigrants consistently perform better than predicted by their conventional or traditional credit scores. This finding provides an important rationale for developing better credit scoring mechanisms to extend credit to Hispanics since most immigrants are Hispanic, half of all Hispanic households earning over \$100,000 are immigrants, and more Hispanic households are married with children (38%) than non-Hispanic households (23%).²⁷

- **Reform the way frontline sales agents are paid so that they are compensated fairly and appropriately for serving targeted home borrowers such as minorities, first-time homebuyers, and other underserved groups.**

To realign incentives with performance, HUD and other financial regulatory agencies should propose that frontline sales agents be compensated or rated based on loan performance over time and effectively rewarded for serving consumers who need more tailored assistance, including responsible borrowers without traditional credit or income histories. Since proficiently underwritten loans to responsible low- and moderate income borrowers, including Hispanics, perform well over time, originators should get rewarded for making such profitable loans rather than for simply making loans that lack a clear measure of the borrowers' ability to repay. Lenders also need to ensure that their affordable loan products, including those using homeownership assistance programs, are readily accessible to, and effectively used by, both brokers and borrowers.

Loan products that use alternative credit scoring systems have been typically avoided because they have tended to be time-consuming, complex, and manually underwritten. Automated systems, however, are now available to help Hispanic families with a history of financial responsibility qualify for better loans. What lenders need to

do now is to streamline the process for making targeted loans, including Community Reinvestment Act and Freddie Mac and Fannie Mae conforming loan products which are intended for low and moderate-income borrowers, first-time homebuyers, and other underserved groups.

Lenders need to tap homeownership assistance programs as well as create market-based incentives for loan officers and brokers in order to increase the use of these loans. These incentives need to be developed in a way that ensures that loan originators are as equally compensated as they would be had these loans been made to traditionally well-served consumers, while also ensuring that the loans can be closed promptly and efficiently.²⁸

Effective Public/Private Partnerships:

- **Strengthen partnerships that promote homeownership for minorities. Hispanics benefit from broader efforts targeted to their communities.**

NAHREP, the National Council of La Raza, LISC, Enterprise, the Housing Assistance Council, the League of United Latin American Citizens, the Cuban American Council, the National Puerto Rican Coalition, and several community development corporations (CDCs) have spearheaded successful partnership efforts with lenders, realtors, nonprofit groups, and local and state government housing agencies. Such collective efforts have substantially increased homeownership opportunities for Hispanics.



Holding local homeownership celebrations that publicly recognize new Latino homeowners and the housing champions who helped them achieve homeownership can stimulate these partnership efforts. Such events create wide-ranging publicity and prod housing providers into working together in order to effectively coordinate and leverage existing homeownership loan products and financial assistance programs.

Finally, publicly recognizing new Latino homeowners empowers other Latinos to believe that they too can own a home. Latinos rely heavily on the opinions and experiences of their friends, relatives, and acquaintances. When they see that others in similar financial situations have bought a home, they begin to strongly believe that they too can make their dream of buying a home a reality.

HOGAR, the national housing initiative of the Congressional Hispanic Caucus Institute (CHCI) has successfully partnered with local groups to organize such homeownership celebrations through its own "Celebrating Homeownership: The Process and the Partnerships" field events in cities such as Yuma, AZ, Las Vegas, NV, and Albuquerque, NM. Both Citigroup and the Hispanic National Mortgage Association have held similar events in states such as Virginia and California. These events are largely modeled after CHCI's HOGAR field events which featured and showcased Hispanic collaborative homeownership efforts involving diverse groups of housing providers.

- **Enhance the coordination of existing public and private sector resources across a large geographic area in order to carry out homeownership programs effectively, especially those programs that provide financial assistance to first-time homebuyers.**

Financial assistance programs, including down payment and closing costs assistance and below-market rate loans, are crucial for many qualified Hispanic home buyers. To ensure that eligible families can gain access to all the financial assistance available in a given geographic area, existing homeownership programs at the state and local levels must be streamlined and coordinated effectively.

An example of a coordinated effort that covers a wide geographic area is Minnesota's Homeownership Center (HOC) that is made up of realtors, financial institutions, and community-based organizations. The center offers centralized support, funding, and coordination of highly capable nonprofit groups.

The HOC currently enjoys enormous credibility among a variety of housing-industry stakeholders. Individuals, families, and communities throughout the state benefit from the expanded availability of successful homeownership opportunities resulting from its services. In 2003, the center received The Excellence in Affordable Housing Initiative Award given by the Minnesota Housing Finance Agency in recognition of its excellent contributions to affordable housing, including helping 1,500 participants purchase homes.

The nonprofit housing organizations within Minnesota's Homeownership Center are particularly well-known for providing high quality homebuyer education, counseling and support services for low- and moderate-income clients. Replicating such models will ensure that homeownership assistance programs are effectively coordinated among service providers and at each step of the home buying process.²⁹

- **Support the revitalization of deteriorated areas as a strategy for increasing homeownership opportunities for Latinos.**

Hispanics are able to find affordable housing, although in some cases only in distressed neighborhoods where homes are generally in poor condition. Nevertheless, over the past two decades the growth of Hispanic households and their increasing capacity to achieve homeownership have contributed substantially to the housing boom in the suburbs, prevented a decline in urban housing markets, and helped stabilize housing markets in many declining small towns and rural areas.

Hispanics are playing a pivotal role in revitalizing communities across America, including remote small towns such as Rupert, Idaho and metropolitan areas such as Anacostia in Washington, DC and the Inner Harbour in Baltimore, MD. Hispanics and other minority groups are, in effect, well-positioned to stimulate the home construction and home improvement sectors of the economy.

Revitalization not only raises the income, property values, and overall wealth of these communities but also enhances their attractiveness as places in which to live and work. Furthermore, revitalization will increase the jobs, amenities, and housing choices available to all residents in surrounding areas and create a vibrant environment that is ripe for commercial and industrial growth over the long run.

Local governments can help accelerate the process of revitalizing these communities by providing special incentives. Such incentives can include a mix of favorable loan terms for mortgages and for renovation expenses, together with generous property tax rates or rebates for an initial period of time. In particular, first-time homebuyers should be provided with incentives to move in and rehabilitate homes in neighborhoods where foreclosed and vacant properties are endangering housing values for the entire community.

In response to the vast need to revitalize areas where foreclosed and empty homes are jeopardizing home values and neighborhood living conditions, The Housing and Economic Recovery Act of 2008 is providing \$4 billion in emergency assistance to stabilize communities hit hard by foreclosures. To ensure that communities can mitigate the harmful effects of foreclosed and abandoned houses, these funds are being used to purchase and rehabilitate an estimated 120,000 foreclosed properties throughout the country.

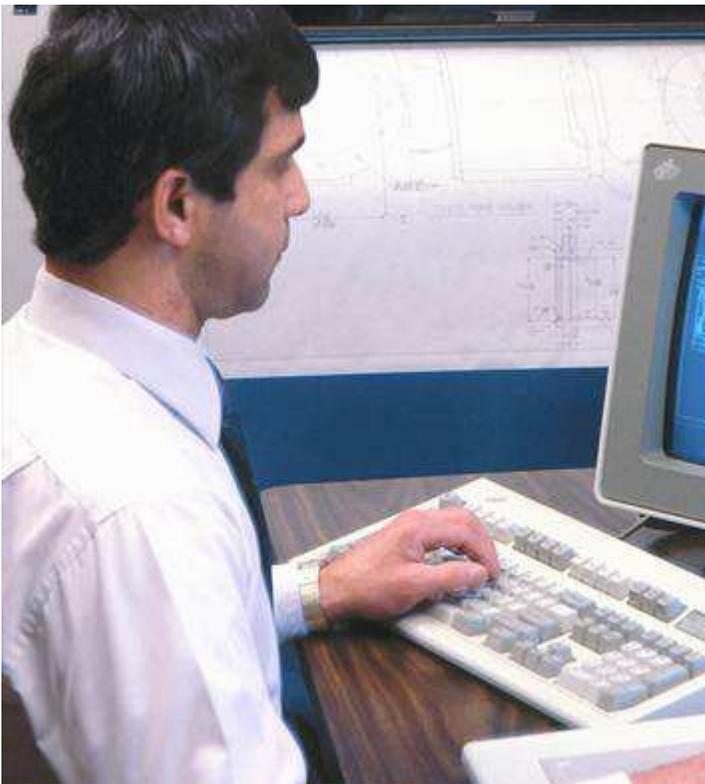
A Final Call for Action

The challenge today is no longer one of prodding the housing industry and government into developing more homeownership strategies, suitable loan products, or financial assistance programs. Rather, the paramount challenge is to motivate all the key stakeholders involved into:

- (1) Ensuring that existing housing programs and services and those created, streamlined, or expanded through The Housing and Economic Recovery Act of 2008 are effectively used.

- (2) Developing meaningful area-wide housing and community development plans throughout the country based on solid housing market data and joint local participation.
- (3) Delivering a steady flow of public funds and a streamlined array of housing services.
- (4) Establishing strategic partnerships and networks among housing and community development stakeholders who can work effectively together – from local governments and nonprofits to private real estate firms and government housing agencies. Such local networks and partnerships can successfully tap and leverage the various housing and community development resources that are available to help revitalize America’s housing and communities.
- (5) Integrating efforts on the part of every one involved in order to actively expand - rather than retract - the use of all the mortgage loan products, financial assistance programs, and existing strategies that are available today to promote homeownership and community development opportunities for all Americans, including Hispanics. Only by effectively networking, integrating, and coordinating the resources now at our disposal can we succeed as a nation in bringing about the resurgence of housing and the rebuilding of America’s 21st century communities.

As Gary Acosta, co-founder of the National Association of Hispanic Real Estate Professionals, is renowned for saying, “By working together there is no limit to what we can accomplish to improve the quality of life for Latinos in this country...Above all, we must remain focused on our goal to help Latinos and other underserved Americans achieve sustainable homeownership, thrive in safe and attractive neighborhoods, and build wealth for their families that can be leveraged for [future] generations.”



Best Practice: Expanding the Use of Government Homeownership Programs

In February 2002, HUD celebrated another milestone in Arizona's Voucher Homeownership Program when a former voucher recipient moved into her first home – this time into a newly constructed home.

The event was made possible through a partnership that included the Yuma County Housing Department, Bank One, and the housing counseling agency, Campesinos Sin Fronteras (Farm Workers Without Borders). But the new aspect of low-income homeownership was Rosalva Rodriguez, a former Section 8 rental voucher recipient and a HUD Family Self Sufficiency Program (FSS) participant, moving into a newly constructed home in San Luis, Arizona. Given the flexibility of Section 8 home-ownership, HUD's FSS Program is an ideal vehicle to help families using Section 8 vouchers obtain employment, and gain economic independence and self-sufficiency. Many families have achieved stable, well-paid employment as a result of their participation in the FSS program, making it possible for them to become homeowners.

Mrs. Rodriguez is the mother of three girls (Melissa Garcia, 11 years old; Ana Garcia, 8; and Diana Garcia, 4). She received a Certificate of Congratulations from HUD that officially recognized her as the recipient of Arizona's first newly constructed home under the Voucher Homeownership Program. Previously, the City of Yuma Housing Authority had scored another historic first by being the first housing authority in Arizona to provide a home under the Section 8 Homeownership Program.

Source: HUD Daily Messages

Epilogue

We are called to do our very best...to help the less informed, the less fortunate, to enable them to have a better life... We have been asked to take care of our national treasures - freedom and free markets - which are buttressed by honesty, by truthfulness, by solid principles. We need...to help families find their dream of homeownership in safe, decent, and attractive communities.

I am very proud of you because you care. I am thankful that you are here working together...I believe in you. This is America. We can do this... We can do this together.

*Tino Diaz, Board of Directors, National Association of Hispanic Real Estate Professionals
"Safeguarding the American Dream" (Wells Fargo 2007 National Housing Symposium)*

Imagine: The year 2007.

From time to time, the National Association of Hispanic Real Estate Professionals calls upon Tino Diaz, a member of its Board of Directors, to represent it at important national gatherings. Tino is Chief Executive Officer of VERTEX Mortgage Bankers, a wholesale mortgage banker that targets the Hispanic market. VERTEX specializes in bringing culturally-sensitive and bilingual Spanish language loan structuring and underwriting practices to the wholesale mortgage banking business. His goal is to put together mortgage loan deals that minimize costs to the home borrower.

When you listen to Tino speak publicly for the very first time, you will never forget his powerful and highly inspiring delivery. On June 14, 2007 Tino represented NAHREP at Wells Fargo's national housing symposium which was held in Washington, DC. At the end of his speech, the audience rose in unison to give him a standing ovation.

Tino first asks his audience to close their eyes and visualize those persons they care most about and love - those who will continue to be a significant part of their lives in the future. He asks them to visualize what their best wishes are for these people they care so much about.

Tino then presents data to demonstrate how Hispanics today are still far less well off than non-Hispanic Whites in terms of net wealth, education, and income. He poignantly illustrates the importance of Hispanic homeownership by showing how Hispanic net wealth per household is only about 9% that of non-Hispanic Whites. He emphasizes that homeownership makes up 61% of the total net wealth of Hispanic households. He calls homeownership the cornerstone of Hispanic wealth.

Tino next crisply documents how the less educated and less well off, but highly industrious and younger, U.S. Latino population will become extremely significant in the near future. As the demand for housing by the baby boom generation diminishes, Latinos are destined to become the nation's largest housing market segment. "Is America ready to let its future depend on a market made up of the unbanked, the uneducated, and less well off?" Tino asks. Or will it rise to the occasion and offer improved opportunities for Latinos to attain higher levels of education, achieve homeownership, and become an integral part of America's middle class?

Finally, Tino asks his audience to imagine what America will look like in the future for the people they care most about today. Will Latinos continue to lag behind or will they become even more upwardly mobile and help ensure a robust and durable middle class in America?

I will now ask you - just like Tino would - to join me on a special journey through time, and imagine...

The years 1947-2007

The year is 1947. World War II has ended. America is emerging as a gargantuan economic power. The world, for now, is at peace. I am being raised around loving grandparents and by my mother in Leon, Guanajuato, Mexico.

My young mother, Rafaelita, begins making plans to travel north in search of a better future. Once she settles firmly in El Paso, Texas she quickly sends for me. The year is 1954 and I am now 11 years old. We reside in several neighborhoods around this border city where home is typically a three-room apartment: my mother's bedroom, a bath room, and a dining room/kitchenette that is transformed into a bedroom for me at night. I recall even a time when we lived in a one-room apartment with an outhouse near by. Yet my mother perseveres, works earnestly, and calls on me to excel: to do my best always and to surpass only my own best efforts. She has made a solemn promise to educate me and she lives long enough to see her promise fulfilled.

I could do no less for my mother. In the 60s, the U.S. Department of Housing and Urban Development carried out the Section 235 Program, a highly innovative homeownership program. I promptly informed my mother that she qualified for this subsidy program on the basis of her limited income. She had always worked hard, paid her taxes, and so she well understood that such government assistance represented a reciprocal right for her own contributions.

Because I was now working for the federal government in Washington, DC, I myself stood ready to support my mother financially. However, HUD officials assured me that my mother would not always be able to count on my financial support. Such assistance, they added, was really unnecessary because she legitimately qualified for the program based solely on her own resources.

Still, it was not easy to convince her. She kept arguing, "But *mijo* (my son), if I move it's going to take me at least 15 minutes to get to work. Right now I get to work in minutes walking or taking the bus. And besides I live so close to my friends, church, and my shopping."

When my mother finally moved into her new home, her whole life changed. She was now a proud homeowner. Even now I remember an occasion back in 1983 when I stopped briefly in El Paso on my way to Paraguay, South America where I was serving as director of the Peace Corps. While preparing for an interview with a local television station, I can still visualize my mother boasting proudly: "*Mijo*, you are so lucky, I just bought new furniture and you are going to look so good on television." She was so proud of her family and of her brand new home.

Nor can I ever forget the time I was sworn in officially as Director of the Peace Corps in Paraguay. At the time, Loret Miller Ruppe, one of the finest Directors the Peace Corps has had, turned directly to my mother and told her publicly how extremely proud she must feel about her son's accomplishments. My mother gleamed, raised her eyebrows with calm dignity, and then simply smiled widely. It was one of the finest moments in my life.

The year 2020

The year is now 2020. Imagine. As I step outside our home, I'm anxious to walk to town, only twenty minutes away. I turn on my Google/NXT phone to see what the weather's going to be like today. Super! It's going to be warm and sunny, with mild southwesterly winds.

I'm hungry. I will stop at Juanita's to savor "huevos con chorizo," eggs with Mexican sausage, one of my favorite breakfasts. I will sit down comfortably in my favorite booth that overlooks the plaza where I glance at all the people strolling by. Around the Henry Cisneros Plaza, there are many shops, mostly Latino: a bakery, a grocery store, several apparel stores, and two restaurants: the Acapulco Restaurant prides itself in preparing the best seafood in town; the other restaurant, El Mero Mero, makes the best carne asada con guacomole tacos.

After breakfast, I move on to the kiosk at the center of the plaza where I stop by Little Joe's Shoe Shine Parlor. I enjoy the soothing massage of a shoe shine. Shoes in the third decade of the 21st century do not need to be polished. Still, old habits never die, just as some jobs endure forever. Today, however, I will not be hustling to go to work. I am 77 years old, retired and simply enjoy a tranquil life.

How my neighborhood has changed though! The Ken Salazar Park, verdant with foliage, is now filled with Latino families and scores of children are out playing soccer every week-end. I myself have not changed my ways; only my grandchildren seem different. They speak in ways I do not understand; they speak their own language. Still, I feel very connected to them, especially when they keep saying, "We love you, *abuelo* (grandfather)."

I will stop by my old church. Life is good. The house I live in reminds me of my childhood in Mexico nearly a century ago - though it only seems like yesterday. The crimson bouganvillea around the patio are my own refuge, providing shade, beauty, and memories of wonderful times gone by. The fig tree near by, with its unmistakable broad-shaped leaves, reminds me nostalgically of my grandmother's cravings for its fruit. I vividly recall how she used to pass the time away, savoring the delicious figs from her orchard.

As I continue my walk, I see in the distance my grandchildren playing with "El Lobo," a stout German Shepherd that simply refuses to grow old. I glance at the newly constructed homes in the neighborhood and chuckle at their exterior colors, soft pastels that cry out for deeper hues but can't attain them because the home owners association simply won't allow it.

Much has changed from the recent past, but home owners associations never do. We can't have everything. Still, even our closest friends and relatives believe McDonalds built our homes - there are so many arches. And inside our homes, the colors are much brighter and blend in cheerfully with our canaries and love birds, and their richness add fun, freshness, and zest while reminding us of what life used to be like. And can still be.

It feels good to walk in the neighborhood. The Raul Yzaguirre High School just ahead is touted as one of the finest in the area, with most schools in the country now practically offering the same level of high quality facilities, equipment, and teachers. And the rate of homeownership is nearly the same as that of the general population, with nearly seven in 10 Latino households owning a home.

All of us in this richly diverse community are proud of what our youth have accomplished. The Jauregui brothers, Diego and Santi, have custom built their own homes and are now highly successful businessmen. Sylvia Arce, one of our neighbors, owns three beauty salons while her husband runs an automobile body shop and garage. Laurene Hernandez, another neighbor, produces her own nationally syndicated television talk show. Every week-end she invites famous people in the news to discuss national issues.

One of our older neighbors is John "Danny" Olivas, one of NASA's pioneer Hispanic astronauts, who over a decade ago while on a space mission repaired an insulating blanket, which at the time was a critical component on the outside of the original Atlantis space shuttle. Danny claims he is now "retired" but we continue to read about his outstanding accomplishments.

We also can't keep track of the many young people we used to know from our neighborhood who are now architects, doctors, realtors, lawyers, and members of other professions. Other Latinos continue to work very hard, hold multiple jobs, and many are successful entrepreneurs, with Latino women continuing to start their own businesses at a faster rate than any other group in the country.

Life is beautiful. This week-end, the whole family will gather at the house. There is always a reason to get together. My daughter Angelina and her husband keep having people over all the time. My wife Rita and I live in one corner of my daughter's Mexican-style house, with a patio in the center of it. Our bedroom, by design, juts and curves away from the patio in a way that separates it from the rest of the house. Thus, I always feel close to my family and always feel so much at home; still, I remain very much my own person. My daughter understands me well. She was always the greatest gift God gave me. Whenever I want to be by myself I can be; when I reach out to others, they are always there.

I enjoy tending my garden. Our flowers and trees keenly remind me of Guanajuato, my home state in Mexico. I can hardly wait to be there again soon. It now takes less than two hours to get there by Turbo Jet. In the meantime, I stay in touch with my relatives in Mexico via special video/satellite phone lines. They are all excited right now. They know that in November, Governor Victor Gonzalez of Colorado stands a good chance of being elected the first Latino President in the history of the United States.

I feel like an old patriarch now. Most of the family seems so young, especially my grandchildren, nieces, and nephews. That's what eternal life means for us back home in

Mexico. Those of us who are old will pass on, but our way of life, our name, and our essence endures forever through our children.

Rita is my soul mate. She and the rest of the family and my friends are the elements that make my life worth living and enjoying. And our homes are our shelter, our pride, our very being. They are what we pass on to our children and future generations. It is the year 2020.

Imagine.

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APPENDIX

Housing Information Resources

Many organizations can help close the large information gap that prospective Hispanic homeowners face. These organizations include government and independent agencies, government-sponsored enterprises (such as Fannie Mae and Freddie Mac), nonprofit organizations, partnerships between private and public organizations, trade organizations, realtors, builders, and contractors. Many of the materials and programs that these organizations provide are free and available in Spanish. The following are some of the resources available and a short description of what they provide:

Government

Federal Deposit Insurance Corporation. The Money Smart financial education classroom curriculum and the new computer-based instruction version, which is available as a CD-ROM and on the Federal Deposit Insurance Corporation's (FDIC) Web site, are available in Spanish. Each of the program's ten modules stands alone so that instructors can custom-design a program for their particular audience or use the entire series. The module entitled "Your Own Home: What Home Ownership Is All About" provides information on the pros and cons of renting versus owning, determining your readiness to buy a home, selecting a mortgage, and learning the basic terms used in the mortgage process. For information and instructions on how to obtain copies of the curriculum, click on the FDIC Money Smart link at <http://www.fdic.gov> or call (202) 942-3404.

U.S. Department of Housing and Urban Development. An extensive English-Spanish home-buying dictionary and a Spanish mortgage glossary are available at the HUD Web site at <http://www.hud.gov/buying/index.cfm>. HUD also offers a booklet entitled "Buying Your Home: Settlement Costs and Information" that is available in Spanish and can be downloaded either as a Microsoft Word or PDF file. Prospective homeowners can speak to Spanish translators on the HUD's housing counseling hot line at (800) 569-4287. To find HUD-approved counseling agencies throughout the country, go to www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm.

Fannie Mae. A Web-based tool for counselors called Home Counselor Online is available in English and Spanish on Fannie Mae's Web site at <https://hco.efanniemae.com/hco/>. Home Counselor Online includes worksheets and checklists to guide families through the home-buying process, a glossary of mortgage terms, a rent-versus-own calculator, and a non-traditional credit payment history report.

Four free guides are available from Fannie Mae in English and Spanish to assist prospective homeowners: "Knowing and Understanding Your Credit," "Opening the Door to a Home of Your Own," "Choosing the Mortgage That's Right for You," and "Borrowing Basics: What You Don't Know Can Hurt You." For more information, call Fannie Mae's Customer Contact Center at (877) 722-6757 (toll free) or go to its general Web site at <http://www.fanniemae.com>.

Freddie Mac. CreditSmart Español®, an 11-module credit curriculum is available from Freddie Mac in English and Spanish. The module on homeownership, "Becoming a Homeowner," offers guidance on such topics as buying versus renting, determining homeownership readiness, assessing the costs of owning a home, selecting a mortgage, finding a real estate professional, and

homeownership education and credit counseling. An overview of Freddie Mac's credit program is available in Spanish at <http://www.freddiemac.com/creditsmartspanol>, and workshop information is available from Freddie Mac's eight partners via links from its Web site at http://www.freddiemac.com/creditsmart/partnership/our_partners.html.

Private Organizations

Congressional Hispanic Caucus Institute National Housing Initiative. The Congressional Hispanic Caucus National Housing Initiative is a nonprofit, bipartisan effort to increase homeownership opportunities for Hispanics across the country and works with Fannie Mae and other national housing institutions. It produced Focus Group Findings: Cross-Site Report, An Assessment of Hispanic Homeownership: Challenges and Opportunities, and HOGAR Best Practices Brief. (<http://www.chci.org/nhi>) which provide a composite in-depth look at the barriers to Hispanic homeownership and suggest policies, strategies, and best practices to address the barriers.

New Alliance Task Force. The New Alliance Task Force is a partnership between the FDIC, the Mexican Consulate, banks, community-based organizations, federal regulators, the secondary market, and private mortgage insurance companies. The partnership has opened 50,000 new bank accounts totaling \$100 million. For more information on the New Alliance Task Force efforts, see "Linking International Remittance Flows to Financial Services: Tapping the Latino Immigrant Market," by Michael A. Frias, Supervisory Insights, Federal Deposit Insurance Corporation, winter 2004, http://www.fdic.gov/regulations/examinations/supervisory/insights/siwin04/latino_mkt.html.

America's Community Bankers. Brochures are available from America's Community Bankers in English and Spanish on credit, homeownership, and financial basics through its Money Rules series. For more information and prices, go to <http://www.americascommunitybankers.com/tools/toolsbody.asp#> or call (888) 872-0568 (toll free).

An online homeownership program in Spanish is available as an alliance between America's Community Bankers and Genworth Financial. The program, called Tu Casa Ahora (Your Home Now), is at <http://www.tucasaahora.com>. Tu Casa Ahora provides potential homeowners with instructions on the mortgage process, interactive tools to calculate payments and analyze rates, and gain access of up to \$2,000 in discounts and special offers on home-related products and services. Members of America's Community Bankers can be listed under a section of the Tu Casa Ahora Web site that helps homeowners find lenders who are familiar with the needs of the Hispanic community and offer Spanish language services. Lenders can also link their Web site directly to Tu Casa Ahora.

Other Resources

The Mortgage Bankers Association (MBA). MBA's www.homeloanlearningcenter.com provides information about credit reports and scores, the true cost of owning a home, and the costs of owning versus renting a home. The Web site provides in-depth, easy-to-read home loan product information in the All About Mortgages section, which includes information on how to qualify for a loan, what the documents mean, what's in the mortgage payment and mortgage calculators to help consumers plan their payments.

MBA encourages consumers visiting this site to continue their financial education by taking advantage of the comprehensive set of links to reach state, federal, nonprofit, and con-

sumer group Web sites, including a listing of homeownership assistance programs. It has recently added contact numbers for dozens of lenders who can help financially distressed borrowers who are having trouble making their monthly mortgage payments. The link to these lenders is located within a contacts box at the lower right-hand side of the web site page.

Realtors and Builders. The National Association of Hispanic Real Estate Professionals now based in Washington, DC, hopes to soon have chapters in every state. Bankers can join the Association and list their loan officers with their online referral directory for prospective homeowners. Trial memberships, individual memberships, and corporate memberships are available. Visit <http://www.realestateespanol.com/Professionals/MainMenu.html>, or <http://www.nahrep.org>, or call (800) 964-5373 for more information.

The builder Pulte Homes has a Spanish-language Web site at <http://www.espanol.pulte.com> where prospective homeowners can search for a new home. Many other local builders and realtors are reaching out to prospective Hispanic homeowners and can be found on the Internet and through local commerce organizations.

Bilingual Employees. Bilingual employees are an excellent resource for lenders. However, lenders may not be able to add permanent bilingual employees to all their branches. Other lenders may face a shortage of qualified Spanish-speaking loan officers in their communities. In these cases, temporary agencies and contractors are available as a resource for bilingual employees on a temporary or part-time basis. Another resource is to partner with an education provider. For example, <http://www.bilingualuniversity.com> is a Web site that offers mortgage training for Spanish-speaking loan officers in partnership with Mortgage-Education.com, an Internet-based continuing education provider for mortgage professionals.

Credit repair and financial literacy, which are the keys to reaching Hispanic consumers, may be achieved by staffing with Spanish speakers, providing materials in Spanish, and focusing on homeowner education. Resources to assist banks to deliver these types of services are readily available from the various sources listed here. Lenders that tap into these resources may be able to close the information gap, gain new customers, and increase their mortgage portfolios.

Groups That Provide Housing Counseling or Information

- Americans for Fairness in Lending, www.affil.org
- Consumer Federation of America, www.consumerfed.org
- Neighborhood Assistance Corporation of America, www.naca.com
- ACORN Housing, www.acornhousing.org
- National Community Reinvestment Coalition, www.ncrc.org
- Center for Responsible Lending, www.responsiblelending.org
- National Association of Consumer Advocates, www.naca.net
- HomeFree-USA, www.homefreeusa.org
- National Council of La Raza, www.nclr.org
- League of United Latin American Citizens, www.lulac.org

Source: Heather Gratton, Senior Financial Analyst, "Bridging the Information Gap: How Bankers Can Help the Hispanic Population Realize the American Dream of Homeownership," Federal Deposit Insurance Corporation, March 22, 2005, <http://www.fdic.gov>. Some of this information was updated and modified by the author of this book, Alejandro Becerra. FDIC obtained this information from publicly available resources that are considered reliable. However, the FDIC and the author do not endorse the information's accuracy and timeliness. Information was also obtained from a *Washington Post* guide on housing resources.

ACKNOWLEDGMENTS

I began writing this primer on Hispanic homeownership by researching the following excellent sources: The National Association of Hispanic Real Estate Professionals' Fundamentals of the Hispanic Real Estate Market course materials; Abt Associates' HUD Research Series "Examining Barriers to Hispanic Homeownership and Efforts to Address These Barriers"; and Timothy Ready's *Hispanic Housing in the United States 2006*.

I consider *Casa y Comunidad: Latino Home and Neighborhood Design*, a major work edited by former HUD Secretary Henry G. Cisneros, and *Fundamentals of the Hispanic Real Estate Market*, a textbook by the National Association of Hispanic Real Estate Professionals (NAHREP), as particularly invaluable. These two books complement the material in this new primer regarding the Hispanic community's vast potential for homeownership. In particular, *Casa y Comunidad* aptly prepares the housing industry to better understand and interact with Latinos and calls on the industry to design homes and communities that attract and support Latino lifestyles. Secretary Cisneros himself suggested adding quotations and pictures to the primer because "they add interest, explanatory power, and convey understanding of nuance."

I am extremely indebted to the following national housing leaders: Henry G. Cisneros, former HUD Secretary; Craig S. Nickerson, former Vice President for Expanding Markets at Freddie Mac; Gary Acosta, co-founder of NAHREP; Tim Sandos, President and CEO of NAHREP; Moises Loza, President and CEO of the Housing Assistance Council; Ron Jauregui, former Vice President for Community Alliances at the Hispanic National Mortgage Association, and Brian Michael Requarth, President and CEO of Bilingual Marketing Services. They provided strong support and excellent feedback and encouragement. Furthermore, they have vigorously prodded the housing industry and government into developing new mortgage loan products and financial homeownership assistance programs. Their joint efforts continue to inspire thousands of housing advocates and specialists into working collectively to meet the affordable housing needs of all Americans.

I especially wish to thank Cristina Bryan, an outstanding professional writer and editor, for editing the book. Cristina has an excellent understanding of the Hispanic population and its needs. Her ability to help create words that flow and tell adds considerable value to the book's content and tone.

I also wish to acknowledge John Smith, President and CEO of Housing Our Communities, a regional nonprofit housing organization; Emilio Abarca, a housing economist, and Joshua Payette, a web designer, who reviewed the study, suggested many excellent ideas, and provided graphics. Finally, I want to express my deepest gratitude to my wife Rita and daughters Angelina and Jolene for inspiring and motivating me to write this book.

Muchisimas gracias!

Alejandro Becerra

About the Author

Alejandro Becerra completed his Federal career with the U.S. Department of Housing and Urban Development (HUD). He has held various key positions in the federal government, including that of Policy Analyst within the Office of the Secretary in USDA where he helped preserve the federal government's only rural homeownership program for low- and moderate-income families.

Becerra also worked for the Cabinet Committee on Opportunities for the Spanish Speaking, within the Executive Office of the President. As a Presidential appointee in the mid-80s, Becerra was Director of the Peace Corps in Paraguay, South America. He later went on to direct AmeriCorps programs for the National Council of La Raza. In 2000 he worked for HUD as an Operations Specialist in Tucson, Arizona where he pioneered HUD's Voucher Homeownership Program in the state of Arizona and championed the program throughout HUD's Western Region.

From 2003 to 2005 Becerra was a senior housing fellow for the Congressional Hispanic Caucus Institute (CHCI) where he was the principal author of *An Assessment of Hispanic Homeownership: Trends and Opportunities* and of *HOGAR Best Practices Brief*, a compilation of best practices and strategies for increasing the Hispanic rate of homeownership nationwide.

Born in Mexico City and raised in Leon, Guanajuato, Mexico, Becerra came to El Paso, Texas at the age of 11. He graduated as valedictorian from Cathedral High School, a school renowned for its academics. Becerra obtained his BA and MA degrees in Economics from the University of Texas at Austin.

