

The Potential of Hispanic Homeownership: *Challenges and Opportunities*

Alejandro Becerra

NATIONAL ASSOCIATION OF



HISPANIC REAL ESTATE
PROFESSIONALS



“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 ... (6) 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**



Acknowledgements

I am extremely indebted to the following national housing leaders: Henry G. Cisneros, former HUD Secretary; Craig S. Nickerson, 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; and Ron Jauregui, Vice President for Community Alliances, the Hispanic National Mortgage Association. 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 home-ownership 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.

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Muchisimas gracias!

Alejandro Becerra



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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 decades 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 which strengthened homeownership have been 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.

Presently the homeownership rate for Hispanic households is about 50%, 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 50%. Unfortunately, this rate is still fully 18 percentage points below the national rate and 25 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 pre-conditions 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. Mr. 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, *The Potential of Hispanic Homeownership: Challenges and Opportunities* 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

NAHREP was created to meet the unique home buying needs of the rapidly growing Hispanic market. Through the timely vision of our founders and the steady leadership of its practitioners and corporate board volunteers, NAHREP members have nurtured the significance of its mission for sustainable Hispanic homeownership by providing ethical, professional service to Latino consumers across the nation. It is critical that NAHREP share its values and the industry's best practices to maintain the positive trends in homeownership Hispanics have achieved. We hope this report will be widely used by real estate professionals from across the nation to enhance this success.

The rate of homeownership for nearly all population groups *except Hispanics* has actually decreased since 2004, proving the resilience and determination of this segment. The research in Alejandro Becerra's report defines the most pertinent reasons for the success of Hispanic homeownership. For the first time in America's history, a majority of Hispanics now own a home in this country largely as a result of the housing industry and government responding more effectively to their homeownership needs.

Along with these successes come challenges to sustaining the rate of Hispanic homeownership and as a result, maintaining the depth of real estate professionals serving this segment. With regards to predatory lending practices, Becerra's research identified certain contributing factors. Among them were insufficient licensing standards and lack of enforcement among mortgage originators for predatory practices. The need to share best practices among industry professionals for serving Hispanic Homebuyers is critical to the ethical, sustainable growth of homeownership as the cornerstone for Hispanic wealth.

Among the reports many recommendations, NAHREP supports preserving sound industry tools and loan products that continue to serve Latinos and the housing market exceedingly well. Loans to Latinos should no longer include restrictive conditions such as onerous prepayment penalties, excessive and unwarranted fees, and terms and conditions that are not only harmful to Latino

borrowers but to the entire housing industry as well. We also espouse the continued use of culturally-appropriate and sound credit-scoring systems and underwriting standards that enable lenders to accurately analyze both traditional and nontraditional credit and income patterns. Such systems not only take into account multiple wage earners and income from more than one job, but also give additional weight to on-time payment performance in rents, phone bills, utilities, and other suitable credit that have proven to be predictive indicators of sound payment performance. It's important to note that we do not advocate "lowering the bar" for obtaining credit. Rather, NAHREP believes that broadening the pool of borrowers who have proven their ability to repay through non-traditional methods of credit is a sustainable strategy that must be adopted.

We hope you find this report useful in developing strategies for serving Hispanic consumers, and we look forward to continuing the great work of NAHREP.

Sincerely,

Felix DeHerrera
2007 NAHREP Chairman

Message from the President

Since its inception, NAHREP has championed growing the rate of sustainable Hispanic Homeownership by educating the real estate professionals and industry partners who serve this market. The organizations value of ethically serving Hispanic consumers has never been more important than it is today.

It was in this spirit that under the leadership of NAHREP Chairman Felix DeHerrera, NAHREP's board directed staff to conduct a series of studies to synthesize the historical perspective for Hispanic Homeownership, identify best practices for ethically serving this market, and determine risks and opportunities for the continued growth of Hispanic Homeownership. We believe Alejandro Becerra's study has met these objectives.

Becerra's research shows that the purchasing power of Hispanics continues to grow exponentially as this segment makes steady gains in population, educational attainment, income, and entrepreneurship. Hispanics exhibit high aspirations to buy a home and an unwavering determination to keep it. This study shows that Hispanics have done this better than any other segment of the market over the last several years.

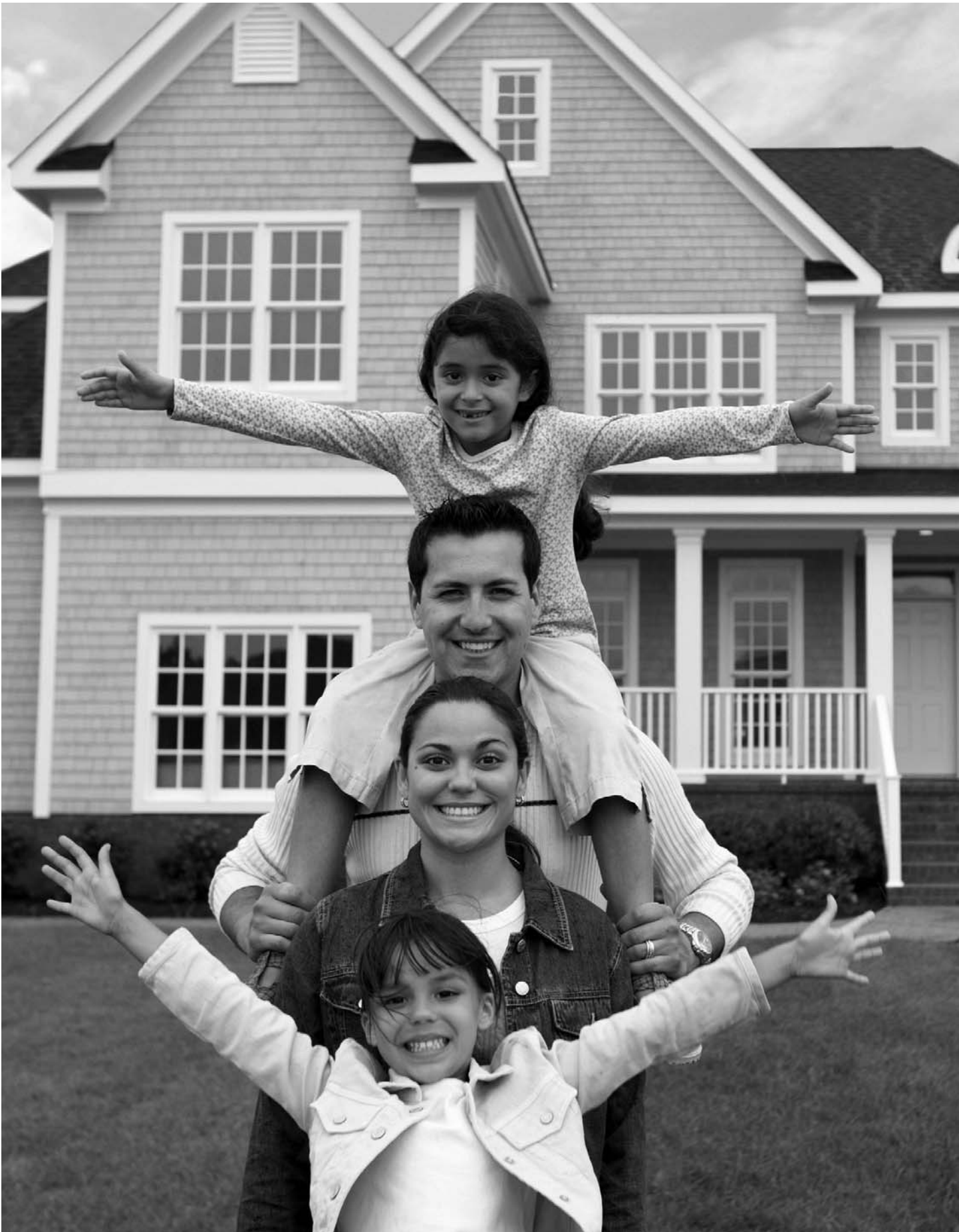
However, Hispanics also face a number of risks to increased homeownership, having been primary targets for a variety of unethical lending practices, known collectively as predatory lending. Additionally, the lack of flexible mortgage products available to the Latino community and the recent limitations placed on access to capital are key risk factors for the continued sustainability of Hispanic Homeownership. Unlike prevailing trends in the lending industry, NAHREP believes that now is neither the time for reducing the availability of flexible lending products, nor for dramatically reducing access to capital for the

burgeoning Hispanic market. The data in this report conclusively makes the case for staying the course. Among the reports many recommendations, NAHREP supports the need to reform the mortgage loan process and move towards greater transparency, fairness, and soundness. We also espouse the continued use of culturally-appropriate and sound credit-scoring systems and underwriting standards that enable lenders to accurately analyze both traditional and nontraditional credit and income patterns. NAHREP believes that broadening the pool of borrowers who have proven their ability to repay through non-traditional methods of credit is a sustainable strategy that must be adopted by all lenders.

We hope this report helps to inform the decisions of industry stakeholders struggling to determine the appropriate strategies for going forward in this volatile marketplace. We look forward to a healthy public discussion on how to best serve the needs of America's neighborhoods through increased homeownership.

Respectfully,

Timothy M. Sandos



Synopsis

Purpose of Study

The Potential of Hispanic Homeownership: Challenges and Opportunities explores the issues and opportunities Hispanics will find in 21st century America's dynamic housing markets. It highlights initiatives the housing industry and government have undertaken to increase homeownership in the burgeoning Hispanic population.

More important, this new primer on Hispanic homeownership presents in one place the most significant points regarding the direction and potential of Latino homeownership. As former HUD Secretary Cisneros points out, the study describes not only the major homeownership barriers and issues confronting Hispanics but also the most effective policies, best-proven strategies, and the most promising approaches to help thousands of Hispanics achieve their dream of homeownership.

The Potential of Hispanic Homeownership: Challenges and Opportunities was written specifically for those proponents of homeownership who are seeking 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 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 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 achieve homeownership throughout the country.
- The barriers and risks that Hispanics continue to confront in their quest to achieve homeownership.
- Important issues impacting homeownership such as predatory and inappropriate lending, discrimination, loans to immigrants, and local regulations on housing.
- 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 education 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 policies that will successfully increase the rate of Hispanic homeownership nationwide.



Major Findings

The Potential of Hispanic Homeownership: Challenges and Opportunities 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 study 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 41% in 1994 to 50% in 2006, an increase of 22%, more than twice the rate of growth of non-Hispanic White households (9%) during the same time period.

Importantly, *The Potential of Hispanic Homeownership: Challenges and Opportunities* 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 proportion 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 approximately 30% of total household growth in the country.

Latinos are also moving to practically every region in the country in search of better jobs and more affordable housing opportunities. From 1995 to 2005, for example, 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.

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 earning more than \$100,000 per year grew by 125% to 3.7 million. Hispanics are expected to continue growing in affluence at a much faster rate than the general population.



In 2006 Hispanic purchasing power was estimated at \$798 billion; it is expected to surpass \$1 trillion in 2010 or earlier. Due largely to the younger age profile of Hispanics and the continued growth in their population and purchasing power, NAHREP estimates that from 2002 to 2012, 40% of first-time homebuyers in the U.S. will be Hispanic. The Tomas Rivera Policy Institute projects that nearly 1.5 million Latino households will buy homes by 2010. It estimates 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 affordable loan products. As these 2.2 million Hispanic households enter the home buying market, they represent an additional \$500 billion in home sales and \$450 billion in mortgage sales for the housing industry. This volume of home sales and loans also represent a potential of \$8 billion in gross income and Gross Commission Income (GCI) of \$23 billion.



Figure 1. U.S. Total Hispanic Population

Summary of Findings

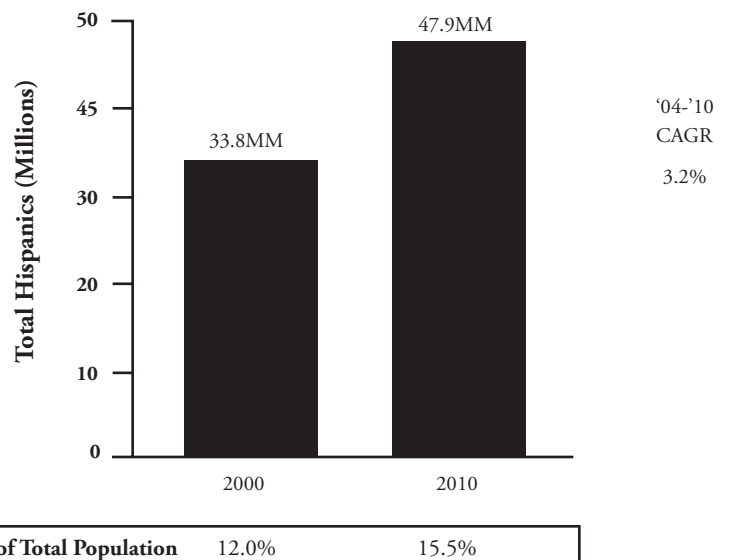
Population and Age

- The Hispanic population of the United States is estimated at 44.3 million, making it the nation's largest ethnic or race minority. In the next few years, Hispanics will account for at least 30% of household growth in the country. They are continuing to grow at a rate three times faster than the rest of the population (Figures 1 and 2).

- 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.

- Hispanics also 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.

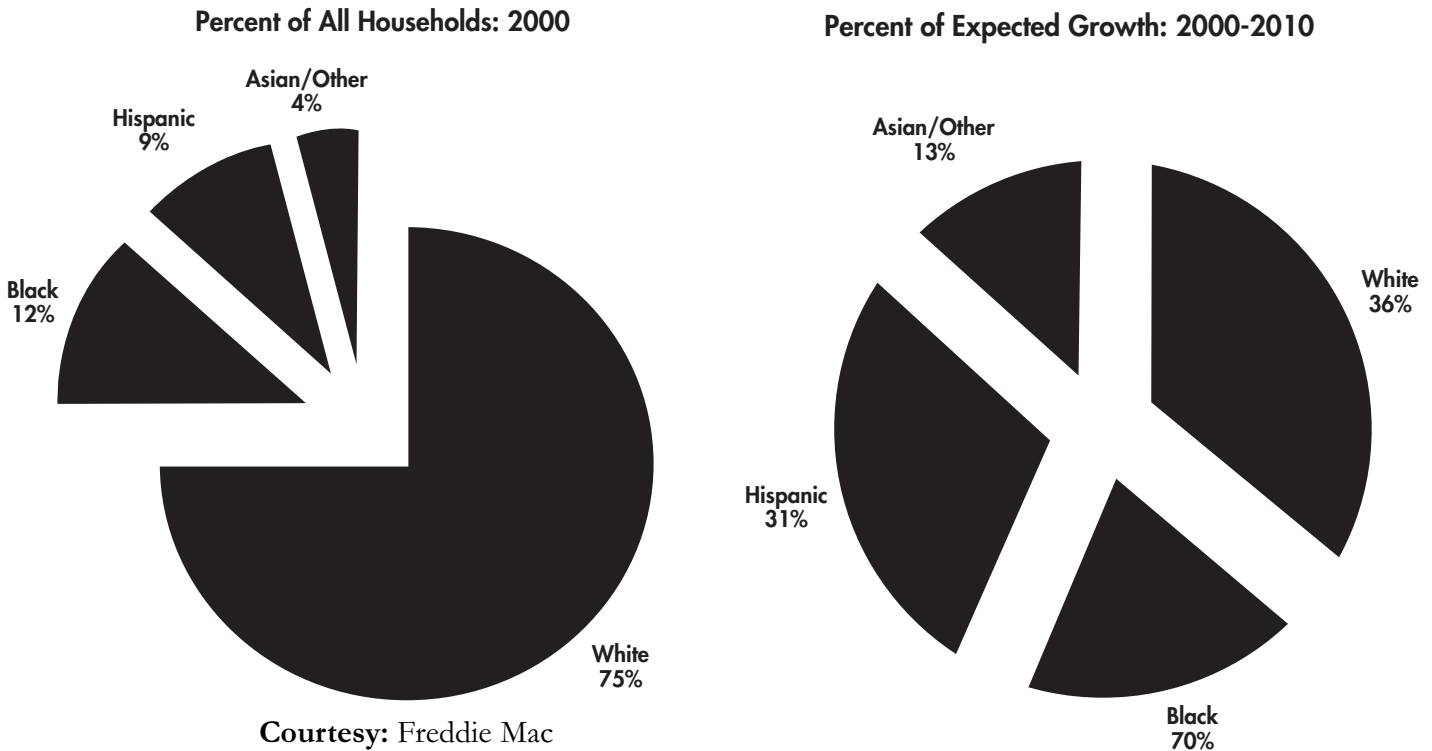
Total Hispanic Population



Source: Hispanic National Mortgage Association

Figure 2. U.S. Household Growth: 2000-2010

Minority Families Will Dominate Household Growth This Decade



Geographic Distribution and Country of Origin

- In 2006, more than two-thirds of the Hispanic population lived in just five states: California (30%), Texas (19%), Florida (8%), New York (7%), and Illinois (4%).

- The top ten states with the largest Hispanic population in 2006 included (from largest to smallest): California, Texas, Florida, New York, Illinois, Arizona, New Jersey, Colorado, and New Mexico.

- Forty four percent of New Mexico's population is Hispanic, the highest of any state. Hispanics also make up more than a quarter of the population of California and Texas, at 36% each, and Arizona (29%).

- Hispanics of Mexican heritage are the largest market sub-segment representing 64% of the total Hispanic population, followed by Puerto Ricans at 9%, Cubans at 4%, and Salvadorans and Dominicans at 3% each. The rest are of other Central American, South American, or other Hispanic or Latino origin.

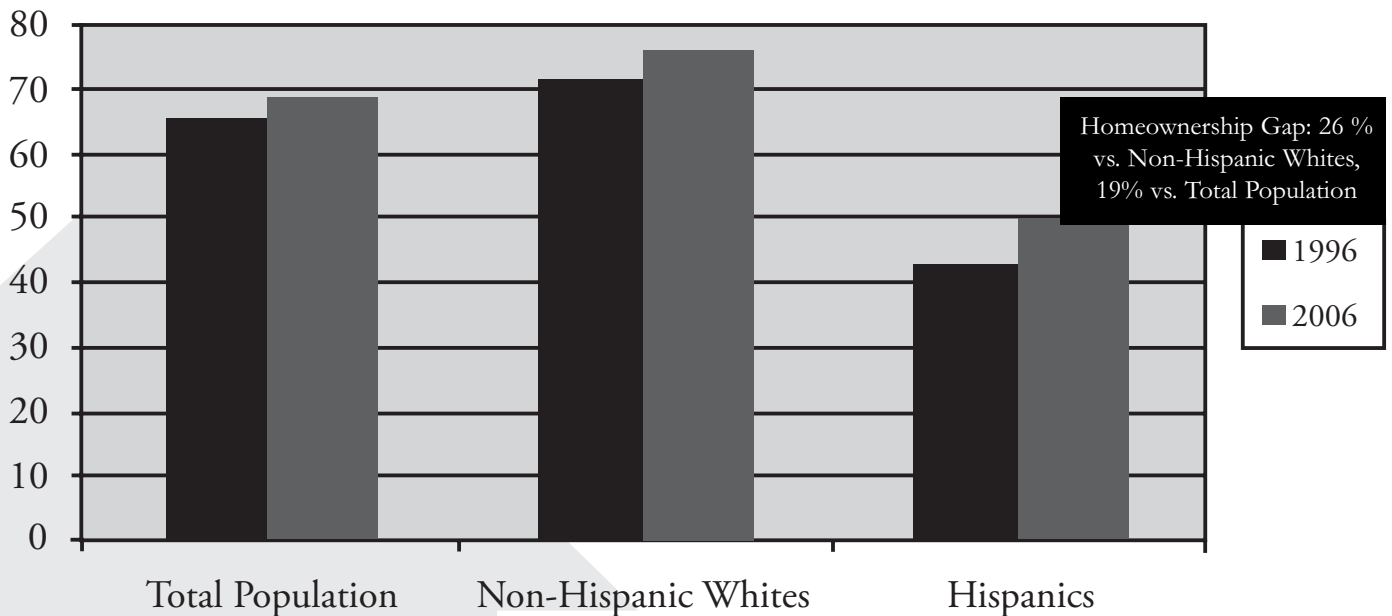
Housing

- During the 1990s, 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.
- Between 1993 and 2003, the number of mortgage loans to Latinos increased from 157,000 to 529,000, an increase of over 236%.
- As of March 2007, a majority of Hispanics (50.1%) owned a home.
- 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.

- Of the 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.
- Over the next 20 years Hispanics are expected to make up 40% of all first-time homebuyers. They are estimated to make up close to 33% of all home buyers by the end of this decade.
- Nearly 2.2 million Hispanic households can potentially buy homes by 2010. They represent an additional \$500 billion in home sales, \$450 billion in mortgage sales, and \$8 billion in gross income for the housing industry.

Figure 3. U. S. Homeownership Rates: 1996/2006

US Homeownership Rates (1996, 2006)



Source: U.S. Census Bureau
Courtesy: Hispanic National Mortgage Association

Income and Purchasing Power

- In 2006 the median household income for Latinos was \$37,800, still 28% lower than the \$52,400 median household income for non-Hispanic Whites.

- From 1995 to 2001, Hispanic median household income grew 27%, while the growth rate of the general population was only 7%. Hispanics are expected to continue growing in affluence at a much faster pace than the general population.

- Hispanic households earning more than \$100,000 per year, for example, have grown by 125% to 3.7 million over the past twenty years. As of 2005, nearly 40% of all Hispanic households (3.9 million) were earning more than \$40,000 per year.

- In 2006, Hispanic purchasing power surged to \$798 billion; it will likely surpass \$1 trillion in 2010 or earlier.

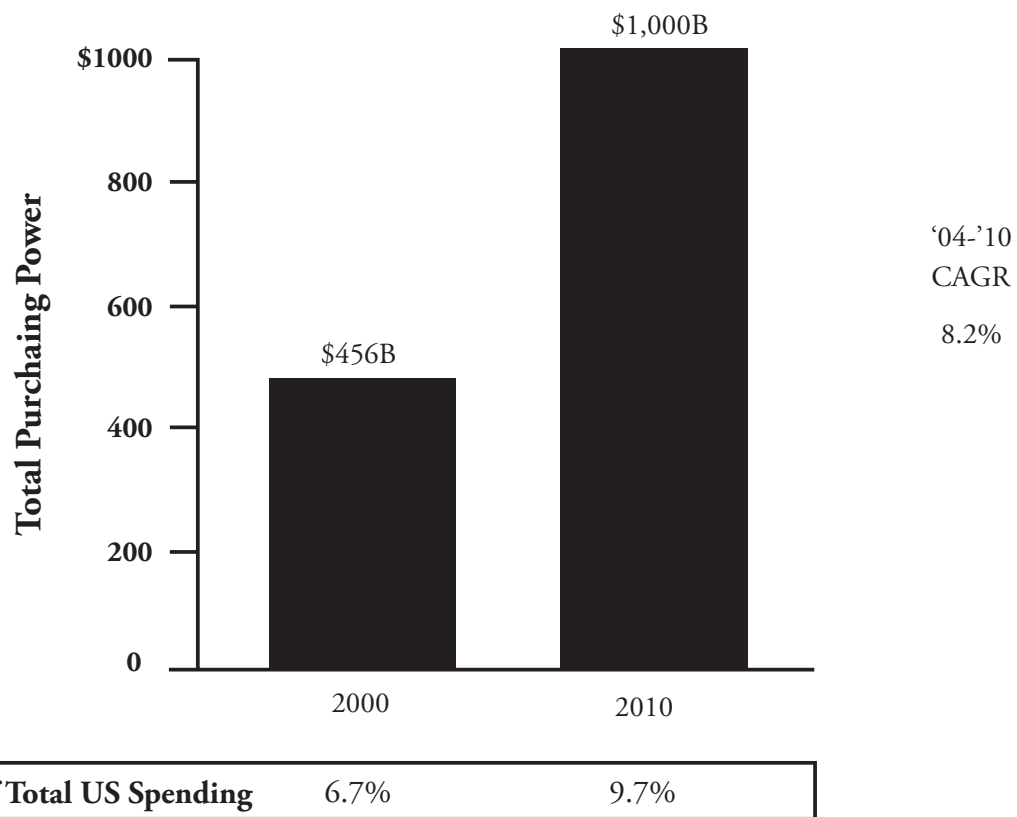
Table 1. U.S. Median Household Income: 1995-2006

	US Total Population	Non-Hispanic White	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

Figure 4. Hispanic Purchasing Power in the United States

Total Hispanic Purchasing Power



Courtesy: Hispanic National Mortgage Association

Benefits of Homeownership

- Homeownership builds equity for homebuyers, fuels economic growth, creates jobs in the residential construction and remodeling industries, and increases sales in the home improvement and other housing-related goods and services sectors.
- Other benefits include improved outcomes for children, increased civic involvement, better maintenance of homes, greater neighborhood stability, and increased savings and wealth.
- Specific benefits for children who live in homes owned by their families include the likelihood of achieving higher levels of education and earnings, and a diminished probability of teen pregnancy or welfare dependence.
- Homeowners are more likely than renters to participate in local organizations, develop a strong commitment to their communities, stay in their local areas for longer periods of time, and in general display a higher sense of well-being.

Fair Lending Issues

- A study by the National Community Reinvestment Coalition found that prime lenders failed to set the pace in fair lending to Hispanics, and were outperformed by subprime lenders in 89% of the metropolitan statistical areas in the country.
- A Federal Reserve study of HMDA data collected in 2005 showed that 46% of Hispanics took out “higher-priced loans,” compared to 17% of 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.

Barriers and Risks

- Traditional barriers include: lack of income and savings for down-payment and closing costs; credit history or lack of one; housing discrimination; lack of accurate and thorough information and outreach; and lack of affordable housing. New barriers may well be prolonged tightening of lending and new misinformation.
- Risks include: falling prey to predatory lending practices; obtaining loans that are too costly; and the possibility of lower home values after purchase.
- Solutions are: greater accessibility of homebuyer education and counseling; transparency and accuracy in the mortgage loan process; improved coordination of “best practices” and leveraged resources; and a greater number of ethical professionals who are bilingual and cross-culturally attuned to Latino needs.

Table 2. Common Misconceptions about the Home buying Process

Survey Summary	Percentage Believing the Myth	
	African American	Hispanic
Need almost perfect credit to qualify for a mortgage	49	51
Poor credit rating cannot be improved	18	26
Down-payment as much as 20% is required to buy a home	38	40
Buying a house is risky and could cause you to lose your life savings	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
People who do not have a checking or savings account cannot buy a home	43	46
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

Source: Freddie Mac

Favorable Factors and Trends

- Hispanics continue to make steady gains in population, income, education, and entrepreneurship.
- Hispanic households are larger, tend to consist of multiple wage earners who consistently pool resources, and are more likely to be headed by married couples with children (38%) than non-Hispanics (23%), and thus have a strong incentive to buy a home.
- Two million Hispanic-owned businesses are generating \$350 billion+ annually. Between 1997 and 2006, the number of businesses owned by Hispanic women grew dramatically by 121%.
- Hispanics are moving to areas with better jobs and a larger supply of affordable housing.
- Interest rates remain at historically low levels and home prices are lower.
- Of the 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.
- Homeownership assistance programs -- in the form of deferrable and below market rate loans as well as closing and down-payment grants -- help Latino households with incomes between <80% and 120% achieve sustainable homeownership.
- Lenders are increasingly willing to tap these programs, which can provide as much as \$50,000 or more in leveraged resources and assistance.
- These programs help sell homes and buyers prepay mortgages more slowly.
- Greater access is now available to home buyer education, counseling, and information on loan products, home prices, and homeownership assistance programs.
- There is also improved coordination among housing providers, including real estate professionals, nonprofit organizations, and government housing agencies.

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 currently works best. 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, tend to trust what they read in newspapers and magazines, and are avid readers of foto novelas, that is, "soap opera" cartoon strips.

Table 3. 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, California	50% Hispanic

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



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 and informed commitment from the public and private sector. 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 some subprime 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.

The housing industry itself has vastly improved efficiency and profitability in making loans to Latinos, a market segment which has traditionally been viewed as costly, time-consuming, and complex. Major lending institutions have also introduced mortgage loan products that have lowered origination and servicing costs by improving and automating underwriting standards, thus making homeownership increasingly affordable. Many of these lenders have been in the forefront of this effort by making Individual Tax Identification Number (ITIN) loans, for example, and accepting minimal down-payments. Given the current tightening of credit, lenders are now more than ever striving to ensure that borrowers choose only the best loans for which they can qualify and pay. Finally, the housing industry has begun recruiting and hiring an increasing number of bilingual, culturally-sensitive real estate professionals who are successfully gaining the trust and brand loyalty of Hispanic home buyers.

Obviously, a great potential for more Hispanic homeownership exists now that Hispanics are increasingly capable of buying homes in localities with more affordable housing and better job and income opportunities. Lenders have -- until recently -- progressively loosened traditionally stringent requirements, become trusted sources of credit, and extended an increasing number of loans that are safe, accessible, and affordable. Such actions have made it possible for thousands of Latinos who have previously been shut out of the market to become homeowners.



It is, however, also plainly evident that many Hispanics continue to face formidable homeownership barriers, including 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 loans.

Faulty provisions in some mortgage loans have indeed 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 become homeowners and repay their loans, and who have benefited immeasurably from the accumulation of equity. Although a growing number of foreclosures and a reduction 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 first quarter of 2007 - the first time in U.S. history that Census data showed that a majority of Hispanics had become homeowners.



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 still available and then wisely selecting the loans and 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 experiences a serious slump. It must not catch itself accepting what major newspapers such as the Wall Street Journal and the mainstream media have been reporting and implying: that the subprime market only “caters to borrowers with weak credit.”

Instead, the housing industry must fully recognize that many Latinos have been offered subprime 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 capability 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 (with significant jumps in monthly payments within a relatively short time).

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.

Overcoming Homeownership Barriers and Risks:

The Challenges

Prospective Latino homebuyers continue to face many barriers and risks: the scarcity of affordable housing in various parts of the country; the disproportionate concentration of Latino households in costly housing markets; the lower median household incomes of Latinos; and the growth -- until most recently -- of nontraditional, high-cost mortgage loans.

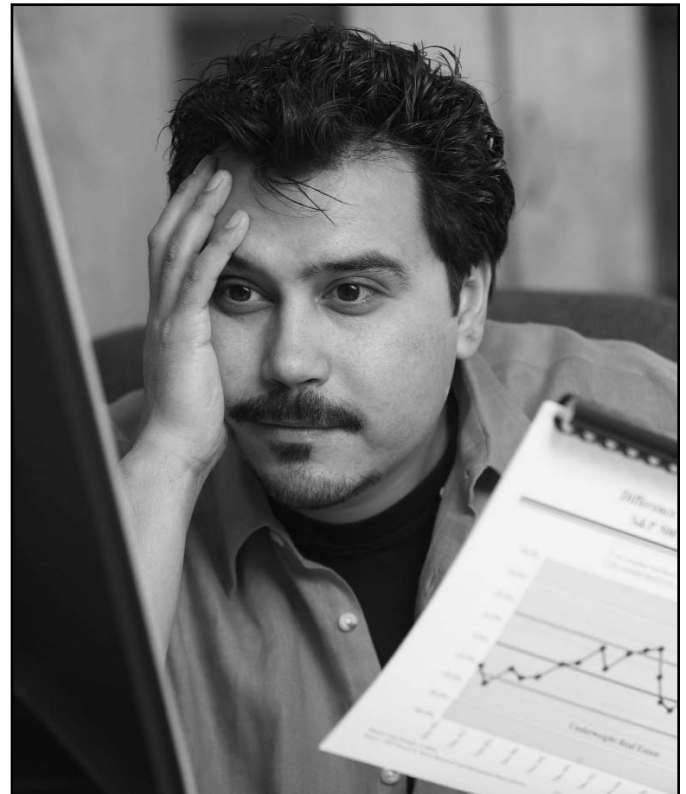
Some nontraditional loans, such as interest-only loans, have not required borrowers to pay down the principal; similarly, option adjustable-rate mortgage loans (another type of nontraditional loan) have allowed customers to pick their payment amount. Consumers in the recent past have obtained such risky 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, have been surprised when their payments doubled or tripled as interest rates adjusted, or as their mortgage balances expanded because they did not pay 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 usually 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 nontraditional loans such as interest-only loans, however, have not fully understood that such loans only make sense when rising home values help mitigate their having to make larger payments later.

If 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 advertised “teaser” interest rates, no down-payment or proof of income requirements, minimum low-payment plans, and confusing terms, and lured even homebuyers with good credit into non-prime, high-cost debt. Such lenders failed to inform borrowers in a concise and upfront manner that some of 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.

In the recent past, job losses and a slowing economy in some industrial states led to late payments on mortgages. More likely though, (a) a lack of understanding how the terms and conditions of these loans affected the ability of many homebuyers to pay for their homes and (b) a decline in property prices have caused the latest trend of growing delinquencies. For a long time, housing advocates had been pleading for lenders to create more flexible mortgage loans. Now, they are highly concerned that ill-informed and ill-prepared borrowers were lured into some of these costly loans in their haste to purchase a home.



Many such loans that feature looser credit requirements and fluctuating payment plans were originally intended for homebuyers 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 younger and less educated homebuyers. Unfortunately, thousands of such homebuyers received these higher cost loans because lenders used “cookie-cutter” industry standards to categorize them, sometimes inaccurately though possibly intentionally, as “high-risk” borrowers.

Until recently, many lenders strongly believed that both nontraditional loan products and traditional subprime loans served an important need if used prudently and wisely. Nonetheless, the terms of some of these loans have caught consumers unprepared for the sudden jumps in their loan payments, and presented them with the possibility of losing their homes.

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 capability.

From the very beginning, borrowers must be encouraged and taught to fully understand 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, especially those who were given unsuitable and costly loans or who could have qualified for better, less expensive loans.

Such trusted advisors, including members of NAHREP, are helping financially stressed borrowers by informing them about available options, guiding them to negotiate alternative ways to avoid foreclosure with their lenders, and often connecting them with nonprofit housing counselors.² They are work-

ing closely with lenders to help these borrowers keep their homes by modifying certain terms of their loans, including a lowering of monthly payments for a period, deferring unpaid principal and interest, and 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. The Federal Housing Administration (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

The forthcoming new book, *The Potential of Hispanic Homeownership: Challenges and Opportunities*, provides more detailed information regarding the various actions which Freddie Mac, Fannie

Mae, HUD, lenders such as Washington Mutual, Citigroup and

Bank of America, the Neighborhood Assistance Corporation of America, the National Community Reinvestment Coalition, the National Association of Realtors (NAR), the Mortgage Bankers Association, NeighborWorks of America, the Homeownership Preservation Foundation, and Hispanic organizations such as the League of United Latin American Citizens are carrying out to help financially-distressed borrowers who are in danger of losing their homes.

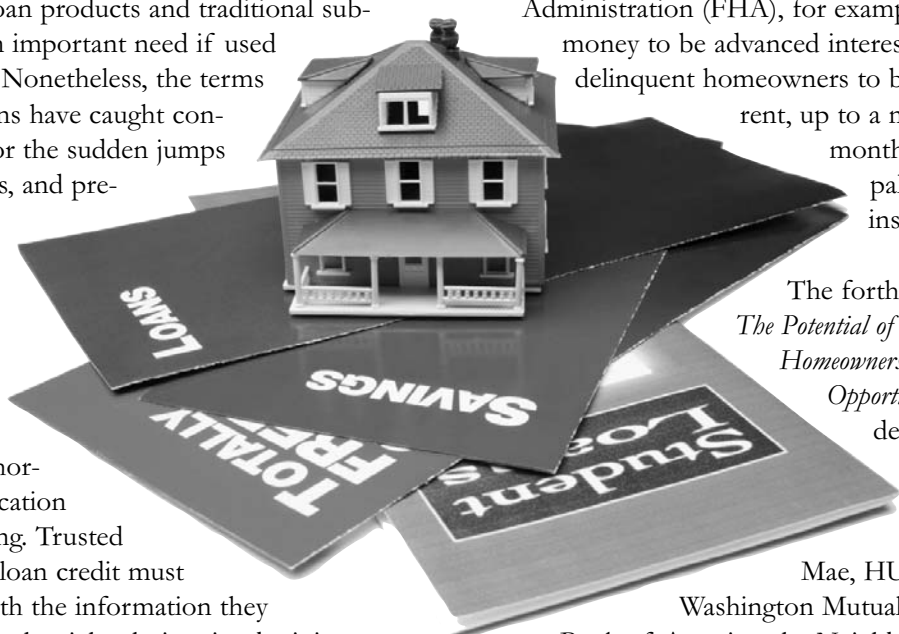


Table 4. Homeownership Percentage Rates by Race/Ethnicity

Year	All Households	White Non-Hispanic	Hispanics	Black	Other
1994	64	70	41.2	42.3	47.7
1995	64.7	70.9	42.1	42.7	47.2
1996	65.4	71.7	42.8	44.1	51.0
1997	65.7	72	43.3	44.8	52.5
1998	66.3	72.6	44.7	45.6	53.0
1999	66.8	73.2	45.5	46.3	53.7
2000	67.4	73.8	46.3	47.2	53.6
2001	67.8	74.3	47.3	47.8	54.2
2002	67.9	74.7	47	47.2	54.7
2003	68.3	75.4	46.7	48.1	56.0
2004	69	76	48.1	49.1	58.6
2005	68.9	75.8	49.5	48.3	59.4
2006	68.8	75.9	49.7	47.8	59.9
2007 2nd Qtr.	68.2	75.4	50.0	46.3	59.4

Source: Census Bureau, Housing Vacancy Survey

The Outlook for Hispanic Homeownership: *The Opportunities*

The rate of homeownership for the entire population in the U.S. has actually decreased from the historic high rate of 69% achieved in 2004 to 68.2% in June 2007. The rate of homeownership for non-Hispanic Whites has likewise declined from the high rate of 76% attained in 2004 to 75.4% in June 2007. Finally, the rate of Black homeownership has declined dramatically from the high rate of 49.1% reached in 2004 to 46.3% in June 2007. In fact, it was nearly four years ago in 2003 when the entire population of the U.S. (68.3%) and non-Hispanic Whites (75.4%) last experienced lower rates of homeownership.

On the other hand, the rate of Hispanic homeownership increased from 48.1% in 2004 to a record high 50.1% in March 2007, declined insignificantly to 50.0% in June 2007, and accounted for a substantial increase of 4% during this three-year period (Table 3). The rate of Hispanic homeownership could still surpass 50% by the end of 2007.

Unless the current housing slump worsens, The *Potential of Hispanic Homeownership: Challenges and Opportunities* expects the gap in the rate of homeownership between Hispanics (50%) and that of the U.S. total population (68%) to continue to narrow by the end of the decade. About 2.2 million Hispanic households are expected to buy homes by 2010 when the rate of Hispanic homeownership should reach 53%.

To achieve these higher rates of homeownership, however, mortgage loan interest rates must remain historically low; Hispanics must continue to make substantial gains in education and income; and the housing industry must assess risk and credit-worthiness more effectively by fully and accurately taking into account the financial capability of Hispanics, especially through allowing the pooling of incomes and resources. Favorable trends that should accelerate the achievement of higher rates of Hispanic homeownership include:

- **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. In the next few years, the U.S. Census estimates Hispanics will account for approximately 30% of total household growth in the country. Hispanics 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 also continuing to attain steady gains in income, education, and business entrepreneurship.** Their vigorous work ethic and larger size of families are helping to accelerate their prospects of homeownership. Indeed, larger Hispanic households with multiple wage earners are often and consistently pooling their incomes and other assets in order to make their dreams of buying a home a reality.

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. Currently, approximately 4 million Hispanics, or about 40% of the Hispanic population, earn an annual income above \$40,000. Furthermore, the number of Hispanic households earning more than \$100,000 per year has grown over the past twenty years by 125%, to 3.7 million. In 2006, Hispanic purchasing power surged to \$798 billion.

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. Currently, about 2 million Hispanic owned businesses in the U.S. generate \$350 billion annually. In particular, businesses owned by Hispanic women are growing dramatically, having increased by 121% between 1997 and 2006.

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.⁴ According to Harvard University's Joint Center for Housing Studies, 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 already earn more than \$100,000 per year. They tend to range in age from 45 to 54; typically have school-age children and possibly extended family members at home; 50% are immi-

grants (foreign-born); and three out of four are married and own a home.⁵

- **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 are beginning to move from high-cost housing markets and have lower median household incomes when compared to non-Hispanic Whites. In contrast, there are housing markets in other parts of the country where Latinos have high median household incomes and also enjoy relatively low housing costs. Among them are Beaumont and Galveston, TX; Melbourne, Daytona Beach, and Sarasota, FL; New Orleans, LA; St. Louis, MO; and Nashville, TN.

Cities with the lowest homeownership costs as a percentage of income include Beaumont (16%), Melbourne (18%), and St. Louis (20%).¹⁰ Likewise, declines in home prices are making housing more affordable in cities such as Boston, Phoenix, Bradenton and Cape Coral, FL, Springfield, IL, Reno, NV, and Stockton and San Diego, CA.⁶ Lower home prices are also expected in Riverside-San Bernadino-Ontario, CA, and Los Angeles, Las Vegas, Tampa, West Palm Beach, Miami and Fort Lauderdale, and Washington, DC.

- **Home prices are decreasing in various parts of the country as homes stay unsold for longer periods of time; at the same time, interest rates have remained at historically low levels.** Consequently, more Latinos can potentially buy a home now, especially in areas where affordable homes for sale are available.

As time goes by and home prices do not rise as fast as before, or even decline, the higher share of lower-end home sales that may result represents yet another longer-term opportunity for Latinos to afford buying a home. In fact, the Commerce Department reported that in April 2007 more than 40% of the new-home sales recorded nationwide were for homes \$200,000 or less.

- **Although it is typically difficult for Hispanic low- to moderate-income families to purchase a home, a substantial number of them are able to do so.** 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 large number of mortgage loans to Latinos represents a promising market for affordable lower-end home sales, especially if the large number of Latino households with incomes between 50% and 120% of area median income have access to the flexible loan products and homeownership assistance programs that are available to meet their needs throughout the country. The current housing market is providing an opportune time for many of these Latino households to buy a home, especially at the lower-end of the market.

The size of this potential market is substantial. 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. A large number of these Hispanic renters are in a relatively good position to purchase a home, especially if they are provided with adequate information on, and receive, homeownership financial support and services.⁷

- **As long as housing prices do not rise as fast as before, more Latinos will be able to afford housing, especially older units in the inner cities, suburbs, and in small towns.** Because homes for sale are remaining longer on the market and more homes are selling at the lower-end of the market, the housing industry is now spending more time in helping low- and moderate-income home buyers benefit from the use of homeownership assistance programs. Such 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.

Although such programs usually require more effort, they are also more readily available today, can help more low- and moderate-income home-buyers qualify for a loan, and can allow sellers to sell at list price or close to it. In many parts of the country, these homeownership assistance programs offer as much as \$50,000 or more in assistance, especially when such assistance is “layered”, that is, it is made up of a combination of local, state, and federal subsidy funds and, in some instances, with private-sector assistance funds.

In the past, lenders have hesitated to make loans to lower-income families because of a tendency to associate higher risks and costs with such loans. They are, however, beginning to find out that there are significant 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. Thus, using homeownership assistance programs to help lower-income Latino families buy homes should result in making more valuable mortgage loans that prepay less rapidly than others.

- **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.** More suitable and affordable loan products, for example, are now available and targeted to prospective home buyers who are willing to prepare responsibly for homeownership through education and counseling.

Currently, traditional credit scoring makes it difficult for many buyers to achieve homeownership. New credit-scoring systems, however, look at utility, rent and other such payments to gauge 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.⁸ 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.⁹

- **An increasing 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.** 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 projects that 1.5 million Latino households will buy homes by 2010.

It estimates 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 (FHA) insures loans that offer very low down-payments, lower rates, are easier to qualify for, are often assumable, and have no prepayment penalties. Its modernization is expected to increase the number of mortgage loans to Hispanics, thus providing a viable alternative to subprime loans and preventing borrowers from obtaining unsuitable and costly loans. FHA reform is 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 also protects the homebuyer by offering foreclosure prevention alternatives which it deems unparalleled in the industry. In fiscal year 2006, more than 75,000 FHA-insured borrowers facing serious default were able to retain homeownership through FHA's foreclosure prevention options. At a time of increasing defaults, FHA's foreclosure rate actually decreased in 2006.

Modernization legislation would replace the FHA's stringent 3% minimum cash investment requirement with a flexible plan that allows homeowners to put down almost no money down, one, two or even 10%. To prevent the FHA from being priced out of many housing markets, the proposed legislation would also increase loan limits. Today, few buyers of homes in high cost areas have been able to use FHA financing because FHA's loan limits are not high enough to meet the cost of most homes there. By increasing and simplifying loan limits, FHA would once again be a major player in high-cost areas. Finally, the new FHA legislation would create a new, risk-based insurance premium structure that would match the premium amount with the credit profile of the borrower. It would replace the current structure, which now provides a standard premium amount for all borrowers, and still protect the soundness of its Insurance Fund.

At the same time, the traditional outreach efforts of USDA will continue to result in more Latinos' attaining homeownership in small towns and rural areas. In contrast, HUD's Voucher Homeownership Program is particularly beneficial to Hispanic lower-income families and female heads of households living in predominantly metropolitan areas. As more local housing authorities recognize the merits of this new program and begin carrying it out across the country, it should continue to result in an increasing number of Latino homeowners.

Summary and Recommendations

Housing Industry Response to Hispanic Market Needs

In spite of the current housing slump, we are today still witnessing the housing industry achieve considerable progress in offering a greater number of user-friendly mortgage loan products, improved and automated standards, and better technology. These industry practices make it easier for prospective Hispanic homeowners to gain access to loan products and reduce origination and servicing costs, thus making homeownership more readily affordable and accessible. Furthermore, 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. Without these loan products and financial assistance, hundreds of thousands of Latinos would not have been able to become homeowners, repay their loans, and accumulate considerable equity.



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

The challenge ahead remains one of connecting the dots - ensuring that every effort is made to use the variety of suitable loan products and homeownership assistance programs that are available. Such undertaking requires the effective provision of home-buyer 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 sectors 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 immediately and proactively to help preserve homeownership for financially-stressed borrowers who are in danger of losing their homes, due largely to recent problems in the subprime market. The ability of these homeowners to keep their homes through refinancing or readjustment of their loans is crucial to the recovery of the housing industry and economy.

In the long term, the housing industry must demonstrate that recent setbacks in the subprime market will only serve to strengthen its determination to expand 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 continue to improve its evaluation of the true credit-worthiness of Latino borrowers through the use of more

culturally-sensitive underwriting criteria. By demonstrating that it is fully capable of treating all homebuyers fairly, equitably, and responsibly, the housing industry can fully tap the richly diverse and rapidly growing Latino homeownership market.

The Hispanic National Mortgage Association (HNMA), for example, is already providing more efficient flexible loans to underserved borrowers such as Latino immigrants, who qualify for interest rates of 7% to 9%. Most of these borrowers would traditionally have been considered subprime and charged higher rates by other lenders.



HNMA's \$200 million portfolio of non-traditional-profile, mostly first-time immigrant buyer loans has a less than 0.5% delinquency rate. 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 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.¹⁰

Recommendations

The Potential of Hispanic Homeownership: Challenges and Opportunities encourages the housing industry to commit itself fully from the top-down, to provide Hispanics full access to the targeted loan products and homeownership assistance programs that are now available nationwide. Overall, the housing industry can help Latinos achieve homeownership by (1) establishing a simpler and more transparent

home-buying and lending process, and (2) demonstrating total commitment to delivering the entire range of suitable loan products and services they offer.

The housing industry must therefore aggressively reach out to ensure that Hispanic borrowers are treated fairly and equitably, prepared adequately for homeownership through counseling, and given the information they need in order to secure the best mortgage loans that suit their financial capability and credit-worthiness. It can guarantee that Latinos are able to obtain such loans by using the new, more culturally-appropriate and sound underwriting criteria that are now being applied by some visionary lenders with increasingly high-quality results.

Lenders specifically must ensure that all borrowers are treated fairly, have their true credit worthiness fully taken into account, and are given an equitable opportunity to attain and sustain homeownership by always offering the best credit options for which borrowers qualify. In recent years Hispanics have taken out 40% of all subprime loans. Such a large percentage of subprime loans to Hispanics is to some extent due to their relatively lower incomes and -- quite significantly -- to their lack of access to reliable counseling and alternative loan products which use the new, more culturally-appropriate and sound underwriting criteria that are available for borrowers with non-traditional credit practices and "thin credit files." As Felix DeHerrera, the newly-installed 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 in an increasing number of Hispanic homeowners in the near future. In addition, the housing industry is strongly becoming aware of the tremendous market potential of the Hispanic community, a community that is vastly entrepreneurial, hard-working, and fueling the American economy.

Specific Recommendations for the Housing Industry

As emphasized previously, the housing industry has already produced several user-friendly and affordable loan products. Accordingly, efforts to increase the rate of Hispanic homeownership must now focus on reaching out to Hispanic consumers with full and accurate information about these loans. Lenders in particular need to help borrowers know their loan terms 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.¹¹



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

- (1) Build and provide safe, decent, and affordable homes that meet the cultural needs and preferences of Latinos.
- (2) Hire more bilingual and culturally-sensitive real estate professionals; train them to maintain a high level of contact with the Latino community; and open a greater number of offices in locations with high concentrations of Latinos.
- (3) Prod lending institutions into making home-buyer education an integral part of the sales and production strategies of their emerging markets' organizational components.
- (4) Ensure that prospective homebuyers receive housing counseling that adequately prepares them for sustainable homeownership, including post-purchase counseling that provides information on successfully managing home maintenance issues and financing larger-scale home improvement needs.
- (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 keep 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 home buyers who qualify for financial assistance to highly responsive and streamlined sources of funding.

Hispanic homeownership rates, however, should increase even more dramatically once housing practitioners from every sector and sphere of influence carry out the policy recommendations which follow and are delineated in the forthcoming book. Accordingly, we hope that *The Potential of Hispanic Homeownership: Challenges and Opportunities* serves in persuading industry leaders, community advocates, and policy-makers to continue to carry out vigorously the policies, strategies, and “best practices” that will cause homeownership barriers to crumble and Hispanic homeownership to flourish.



Public Policy Recommendations

The following public policies should increase homeownership opportunities throughout America:

- **Enacting 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.

- **Enacting 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.

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

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 are particularly beneficial to employers who wish to retain employees and reduce excessive training costs caused by high rates of turnover.

- **Expanding 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 the 109th 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. Legislation has been introduced to extend this benefit beyond 2007.

- **Standardizing Federal Regulatory Provisions related to Individual Tax Information Number (ITIN) Lending.**

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. 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.

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

These programs include: HUD's Federal Housing Administration (FHA) mortgage-insured loan products; HUD's American Dream Downpayment

Initiative for first-time homebuyers; HUD's Voucher Homeownership Program; HUD's Community Development Block Grant (CDBG) and HUD's HOME Investment Partnerships (HOME) programs; USDA's 502 Home-ownership Program for low- and moderate income families;

These financial assistance programs are critically important 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 much more important 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.

- **Promoting 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 have lower incomes, 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 families and communities that are normally associated with homeownership must similarly prevail in rental housing.

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

Such policy strategies include 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 policy strategies should also include promising alternatives such as high-quality manufactured housing and limited-equity cooperatives.

- **Evaluating the effectiveness of programs that are available to help Hispanics become homeowners.**

HUD researchers have found that little is known about the effectiveness of various programs, including housing counseling and closing costs and down-payment assistance, which are designed to help move Hispanic households into homeownership.

HUD must therefore undertake a more aggressive and robust evaluation of these programs in order to ensure that resources devoted to expanding homeownership opportunities for Hispanics are well-targeted and -used.

- **Expanding access to financial literacy, homebuyer education, and housing counseling.**

Culturally-sensitive homebuyer education and housing counseling efforts play 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.

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

Such strategies and programs help homebuyers to establish individual development accounts that often include the use of earned income tax credits and accumulated savings that can be applied to the purchase of a home. These programs complement credit-repair and financial literacy education efforts by providing incentives and a mechanism for families to accumulate savings that can be used to cover closing and down-payment costs.

- **Continuing to promote the use of suitable and user-friendly mortgage loan products, culturally-appropriate underwriting standards, and better technology.**

These industry practices make it easier for prospective Hispanic homeowners to gain access to mortgage loan products and reduce origination and servicing costs, thus making homeownership more readily affordable. Freddie Mac, Fannie Mae, and the Federal Housing Administration (FHA) must continue to work closely with lenders in expanding these practices to ensure that homebuyers obtain the best possible mortgage loans for which they are well prepared and qualified.

- **Using non-traditional credit scoring mechanisms to more accurately determine the credit worthiness of Hispanics.**

Traditional credit scoring techniques fall short of accurately portraying Hispanic "credit worthiness." 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, expand the availability of mortgage financing to loan applicants with little or no traditional credit history.

A 2007 Federal Reserve Study found that married individuals, immigrants, and those residing in higher-income census tracts consistently perform better than predicted by their credit scores. This is an important argument for developing better ways to extend credit to Hispanics since 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%).

- **Strengthening 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, Esperanza, and several community development corporations 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.

- **Enhancing the coordination of public and private sector resources across a larger geographic area in order to carry out homeownership assistance programs effectively.**

Financial assistance programs, including down-payment and closing costs assistance and below-market rate loans for qualified buyers, are crucial for many 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 achieve improved coordination and outreach.

- **Supporting 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. Over the past two decades, nevertheless, 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.

The Future Ahead

More than ever, the housing industry needs to 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 run. The goal must be to help all homeowners not only to adequately 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 for choosing a home they can afford; to help them select the mortgage loan that best suits their financial capability 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 and expedient advice and services that will help them keep their homes or minimize their losses.

All of these objectives can be achieved through the various strategies and policies recommended in this primer. In particular, homebuyer education, financial literacy, and pre- and post-purchase counseling must be emphasized in order to ensure that prospective homebuyers make the right choices and are able to preserve their homes.

To make certain that Latinos have access to flexible and affordable mortgage loan products, lending institutions must continue to expand their marketing and

outreach efforts across the country. Likewise, special efforts are needed to inform hard-working, lower-income Latino families of the various homeownership assistance programs that are widely available today.

In summary, the housing industry must: achieve transparency in the home-buying and loan-making process; clearly disclose a summary of all fees and revenue paid to any parties involved in making a mortgage loan to avoid predatory practices; continue to make great strides in making homeownership more accessible and affordable through technological and financial innovations; and be totally committed to the goal of increasing homeownership in America.

Concluding Remarks

The challenge today is no longer one of prodding the housing industry and government into developing more homeownership strategies, flexible loan products, or financial assistance programs. Rather, the challenge remains one of motivating the key players involved in homeownership to develop strong local community and political support, strategic partnerships, and multi-dimensional efforts in order to successfully expand-- rather than retract -- the use of all affordable loan products, financial assistance programs, and existing strategies that are available today to increase the rate of Hispanic homeownership nationwide.

As Gary Acosta, co-founder of the National Association of Hispanic Real Estate Professionals is renowned for saying, "Together there is no limit to what we can accomplish to improve the quality of life for Latinos and everyone else in this country...Above all remember that our goal is to help Latinos achieve homeownership and build wealth for their families to leverage over generations. For this reason alone, we must remain focused on the future of our community..."

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