

The State of, and Barriers to, Latino Homeownership

Submitted to

**House Financial Services Committee
Subcommittee on Housing, Community Development, and Insurance**

Submitted by

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Introduction

UnidosUS, formerly the National Council of La Raza, is the largest national Hispanic* civil rights and advocacy organization in the United States. For more than 50 years, we have worked to advance opportunities for low-and moderate-income Latino families so that they can achieve economic stability and build wealth. In this capacity, UnidosUS, with its network of nearly 300 Affiliates—local, community-based organizations in 35 states, the District of Columbia, and Puerto Rico—provides education, health care, housing counseling, workforce development, and financial coaching programs to millions of citizens and immigrants in the United States annually.

For almost three decades, UnidosUS has conducted research and analysis and has testified before Congress on issues related to improving the financial well-being of Latinos; including strengthening the Community Reinvestment Act and the Home Ownership and Equity Protection Act (HOEPA), supporting strong fair housing and fair lending laws, creating a fair and equitable credit scoring system, increasing access to financial services for low-income families, and promoting homeownership in the Latino community.

In addition, the UnidosUS Wealth and Housing Alliance (UWHA) is the nation’s largest network of community-based organizations working to empower Latino wealth-building through homeownership. The UWHA develops effective programs that blend research, advocacy, and direct housing and financial counseling. The UWHA is a housing counseling intermediary approved by the Department of Housing and Urban Development (HUD) and trains hundreds of housing counselors emphasizing individual and culturally competent counseling. Established in 1997, the UWHA includes 50 independent community-based organizations, that supports more than 60,000 families a year.

This statement provides a brief history of Latinos’ access to homeownership and identifies three barriers the community currently faces in accessing homeownership.

Background

Latinos, Blacks, new immigrants, and other underserved groups have long been shut out of access to safe and affordable homeownership opportunities. Beginning in 1934, the Federal Housing Administration (FHA) ranked “races” and “nationalities” with respect to their perceived level of desirability in the lending and real estate markets. FHA’s chart, summarized below, lists White Anglo-Saxons at the top of the list and Latinos and Blacks at the bottom.¹

1. *English, Germans, Scotch, Irish, Scandinavians*
2. *North Italians*
3. *Bohemians or Czechs*
4. *Poles*

* The terms “Hispanic” and “Latino” are used interchangeably by the U.S. Census Bureau and throughout this document to refer to persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

5. *Lithuanians*
6. *Greeks*
7. *Russians, Jews (lower class)*
8. *South Italians*
9. *Negroes*
10. *Mexicans*

Following World War II, these practices continued to influence federal housing policy and how credit was extended to purchase a home, in a process known as redlining.² This process allowed White families to take advantage of government-guaranteed home loans, while Latinos, Blacks, and other people of color, were largely excluded from the opportunity to obtain these mortgages. This resulted in residential segregation and disinvestment in communities of color where banks refused to lend money for homes in inner cities, and Latinos and Blacks were excluded from suburban areas. These policies were largely eliminated following the enactment of the Fair Housing Act of 1968 and the Equal Credit Opportunity Act of 1974, but some discriminatory practices in lending continued.

Unfortunately, in the lead up to the financial crisis of 2007—Latinos, like Blacks and other Americans—were disproportionately steered into high-cost mortgage loans. Even when Latino homebuyers had good credit, they were 30% more likely to receive financing options that were high-cost and predatory. As a result, millions of families lost their homes to foreclosure,³ and Latino homeownership decreased by 4.1% between 2007 and 2014,⁴ falling from 49.9% in 2007 to a 10-year low of 45% in 2014.⁵ Since 2014, Latino homeownership has rebounded two percentage points, reaching 47.2% in 2017.

Even though the Latino homeownership rate has been on the rise, Latinos continue to experience setbacks in the housing market. Persistent disparities still exist in the mortgage market, and while mortgages to Latinos have increased overall, eligible Latino borrowers still face credit barriers and growing challenges in their ability to afford a home in their community.

Barriers to Latino Homeownership

Latinos represent a growing and influential population in the housing market, as demonstrated by sustained growth in Latino households and Latino homeownership. Despite recent gains, continued low Latino homeownership rates and persistent homeownership disparities have the potential to dampen the future prospects of the nation's housing market. This section addresses three barriers to Latino homeownership: access to credit, down payment assistance, and rising housing costs.

Access to Credit

Credit in the United States has been traditionally extended based on a credit score. While this score is intended to be an impartial measure of a person's creditworthiness, it can reinforce discriminatory and unfair disparities, including access to homeownership. Credit scores reflect historic wealth; those with more wealth are likely to have better credit history and a positive

credit score because they can pay their bills on time and are better equipped to weather financial setbacks or emergencies.

Because the credit information of Latinos and other communities of color are not adequately captured and more accurately scored, they tend to have lower credit scores than their White counterparts. In 2013, the Urban Institute found that in 2013, only 41% of Latinos and 33% of Black consumers had a FICO score of 750 or higher, while more than 64% of Whites had a score of 750 or higher.⁶ Latinos continue to face challenges in accessing safe credit products, in part because they are inadequately captured by traditional credit reporting systems. For example, 30% of Black and Hispanic consumers are credit invisible or are unscorable, compared to 17% of Whites.

To ensure that Latinos' credit information is adequately captured and more accurately scored, the lenders, credit scoring agencies, and secondary market mortgage investors should expand its use of non-traditional credit information and adopt new credit scoring models that incorporates alternative data, in their mortgage underwriting systems. For example, Fannie Mae and Freddie Mac should finalize and implement their proposed rule which contemplated alternative credit scoring models in their underwriting and risk-based pricing frameworks.

Down Payment Assistance

One of the primary barriers confronting most of today's prospective homebuyers is the ability to accumulate sufficient savings to make a down payment. According to several industry studies, saving for a down payment was ranked as the most difficult step in the home buying process.⁷

Programs that have coupled down payment assistance or low down payment requirements with appropriately designed loan products have proven to be of great assistance to first-time homebuyers. For example, in 2010, the HUD Neighborhood Stabilization Program cited down payment assistance as a crucial approach to stimulating homeownership within low- and moderate-income communities.⁸ UnidosUS surveys of the Financial Services Advisory Council, a group of 10 UnidosUS Affiliates serving more than 50,000 Latinos annually, noted that down payment assistance is a critically important tool in their Latino communities.⁹

To help Latinos and low-wealth communities overcome a historical gap in savings, the housing finance system should promote and adopt innovative loan programs that promote safe and affordable products that do not require a large down payment. These should include low down payment mortgage programs and programs that pair down payment assistance with safe, affordable loan products and integrate housing counseling. By offering viable pathways to overcome a lack of adequate savings, down payment assistance programs can create opportunities for more American families to successfully enter into homeownership with equity.

Rising Housing Costs

Many Latino homebuyers struggle to find a home at a price they can afford. The supply of existing single-family homes for sale, especially more modestly-priced homes, is low. For example, even in moderately sized, moderately priced, and fast-growing metros such as Boise, Idaho; Charlotte, North Carolina; Des Moines, Iowa; and Durham, North Carolina, 65% of existing homes for sale were at the upper end of the market.¹⁰ And, in five of the 10 most unaffordable

metro areas by home price to income ratio, Latinos make up between 20 to 35% of households.¹¹

Greater federal investment is needed to help close the gap between stagnating incomes and rising housing costs, and to increase affordable housing stock. For example, investments in the Federal Housing Trust Fund and HOME Investment Partnerships can help boost affordable housing construction. In addition, re-introducing a refundable first-time homebuyer tax credit and removing caps on Fannie Mae and Freddie Mac's conforming loan limits can help families with modest incomes afford financing in high cost areas.

Conclusion

Latinos face persisting disparities in access to affordable homeownership. Greater access and affordability in the nation's housing market is needed to close homeownership gaps and put Latinos back on a path to building equity and wealth.

¹Rice, Lisa, "An Examination of Civil Rights Issues with Respect to the Mortgage Crisis: The Effects of Predatory Lending on the Mortgage Crisis," Statement of Lisa Rice for the U.S. Commission on Civil Rights Public Briefing. March 20, 2009. Accessed May 13, 2019. <http://nationalfairhousing.org/wp-content/uploads/2017/04/US-Commission-on-Civil-Rights-Statement-of-LR-on-Predatory-Lending-Final...-1.pdf>

² "Historical Shift from Explicit to Implicit Policies: Affecting Housing Segregation in Eastern Massachusetts." Accessed May 10, 2017, <http://www.bostonfairhousing.org/timeline/1934-1968-FHA-Redlining.html>.

³ Rakesh Kochhar, Richard Fry, and Paul Taylor, *Wealth Gaps Rise to Record Highs Between Whites, Blacks, Hispanics* (Washington, DC: Pew Research Center, 2011). Accessed May 13, 2019.

<http://www.pewsocialtrends.org/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/>.

⁴ Garriga, Carlos, et al. "The Homeownership Experience of Minorities During the Great Recession." 2017. Accessed May 13, 2019. <https://files.stlouisfed.org/files/htdocs/publications/review/2017-02-15/the-homeownership-experience-of-minorities-during-the-great-recession.pdf>.

⁵ UnidosUS analysis of Home Mortgage Disclosure Act Data from the Consumer Financial Protection Bureau.

⁶ Li, Wei. "Weaker Credit or Racial Discrimination: The Data are Unclear." 2014. Accessed May 13, 2019.

<https://www.urban.org/urban-wire/weaker-credit-or-racial-discrimination-data-are-unclear>.

⁷ Calderon, Marisa. "2018 State of Hispanic Homeownership Report." 2019. Accessed May 13, 2019.

<https://nahrep.org/downloads/2018-state-of-hispanic-homeownership-report.pdf>; National Association of Realtors. "HOME Survey: Housing and Economic Sentiment on Divergent Paths in Early 2018." March 26, 2018. Accessed May 7, 2019. <https://www.nar.realtor/newsroom/home-survey-housing-and-economic-sentiment-on-divergent-paths-in-early-2018>.

⁸ Department of Housing and Urban Development. "NSP Homebuyer Programs: Financing and Long Term Affordability." October 2010. Accessed May 7, 2019.

<https://www.hudexchange.info/resources/documents/HomebuyerFinancingandLongtermAffordability.pdf>.

⁹ Collins, Amelia. "Latino Community Insights: Financial Access and Inclusion." 2016. Accessed May 13, 2019.

http://publications.nclr.org/bitstream/handle/123456789/1574/financialaccess_62816.pdf?sequence=4&isAllowed=y.

¹⁰ "State of the Nation's Housing 2018." June 18, 2018. Accessed May 7, 2019.

https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_State_of_the_Nations_Housing_2018.pdf.

¹¹ Harvard Joint Center for Housing Studies. "Who Can Afford a Median-priced Home In Their Metro." Accessed May 7, 2019. <https://www.jchs.harvard.edu/son2017-housing-affordability-table>.