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Increasing Hispanic Homeownership: Strategies for Programs and Public Policy

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Overview

According to the U.S. Bureau of the Census, in October 2001 the Hispanic** homeownership rate (48.1%) surpassed that of African Americans (47.5%) for the first time. Despite the rapid growth in Latino homeownership in recent years, the rate continued to lag significantly behind the nation's overall rate (68.1%), as well as of that of non-Hispanic Whites (74.6%). For example, over the 1997-2001 period, the Hispanic homeownership rate grew from 43.0% to 47.5%, an increase of more than 10%. Over the same period, the overall rate grew by 3.1%, while the rates for Whites and African Americans grew by 3.2% and 4.9%, respectively.[1]

Although most observers believe that the homeownership gap between Latinos and Whites is primarily attributable to Hispanics' lower median

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** The terms "Hispanic" and "Latino" are used interchangeably to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

income – and thus difficult to address through policy and program intervention – NCLR's analysis suggests otherwise. This Issue Brief describes the principal barriers to Latino homeownership, discusses findings from recent research and NCLR's own experience in the field regarding how to close the homeownership gap between Latinos and Whites, and concludes by laying out a strategy for increasing the Hispanic homeownership rate.

Barriers to Hispanic Homeownership

A. Lack of Consumer Education: The Primary Barrier

Hispanics continue to be underrepresented in homeownership due, in part, to lack of consumer education. A survey released in November 2000 by the National Association of Hispanic Real Estate Professionals (NAHREP) to their members listed "lack of education regarding the homebuying process" as the number one barrier to Hispanic homeownership.[2]

Barriers to educating Hispanics, such as cultural and language differences, impede the dissemination of mortgage and other homeownership knowledge, particularly when Latinos are not well represented in the professional ranks of loan officers, real estate professionals, and escrow officers. Barriers to consumer education for Latinos are exacerbated by the housing industry's lack of professionals who are Spanish-speaking and bicultural.

The unresponsiveness by the housing industry to language and cultural differences leads to a lack of understanding regarding the mortgage industry in the U.S. A recent study by Georgetown University for the Fannie Mae Foundation[3] found that many Hispanic immigrants bring with them "knowledge" of their home countries' housing industry, which requires large downpayments (not uncommonly 50% of house value) and high interest rates, typically in the double digits. This "old country knowledge," which is largely inapplicable to the U.S. housing market, effectively deters many Hispanic immigrant households from pursuing the homeownership path.

Overall, while these factors disproportionately affect Latino immigrant and Puerto Rican households whose first language is Spanish, native-born Hispanics also frequently lack knowledge of the homebuying process. This is due in part to the low levels of educational attainment in the Hispanic community,[4] lack of familiarity with financial institutions, and few connections to other Latino homeowners, either family or friends, who can guide them through the mortgage application and general homebuying process.

B. Low Incomes, High Housing Costs

Despite recent gains, the Latino homeownership rate continues to be 20 percentage points below the national homeownership rate of 68%. In addition to lack of consumer education, the dismal homeownership rate for Latinos is linked in part to the combination of low Latino incomes and soaring housing costs. For many Hispanic families, incomes have not kept up either with inflation or with housing prices. Housing is especially burdensome for Hispanics because they continue to be one of the poorest groups of Americans. The most recent data for 2000 show that one in five Hispanics (21.2%) and more than one in four (28.0%) Hispanic children are poor. Indeed, a report by the National Housing Institute, as well as a study by the Joint Center for Housing Studies, pointed to an increase in the number of Latino households defined as "working poor" as an important barrier to homeownership.[5]

As a result, Hispanics top the list of the most "housing burdened"[6] ethnic group, compared to White and Black households.[7] Housing costs for Latinos represent a larger burden on household income than for other groups – more than two-fifths (43.9%) of Hispanic renter households spend 30% or more of their income on housing, compared to 39.4% of Black renter households and 28.7% of all renter households. In addition to being burdened by high housing costs, Hispanics are more likely to live in housing that is of poor quality and/or overcrowded. Twenty-eight percent (28%) of Hispanics live in crowded households compared to 2% of White households.

For most American families, homeownership is the single greatest wealth-building vehicle, allowing households to leverage equity to send children to college or start a business. Homeownership also permits elderly households to convert equity into income through ever more popular reverse mortgages.[8] However, according to statistics provided by the National Association of Realtors (NAR), the median existing home sales prices continue to rise faster than inflation, although regions that were rising in the double digits in year 2000 have shown some slowdown.[9] As of December 2001, the median home costs approximately $151,400, an increase of more than 8% from December 2000 when the median home price was only $139,700.[10] Moreover, income has not kept up with housing prices. Median family income is $54,120, up from $51,642 or almost 5% from December 2000.

Considering that first-time homeowners represent 42% of home sales, and that Hispanics represent a large portion of this market, how do the statistics compare for first-time homebuyers? The average first-time homebuyer had a median income of $36,720. This income could only support an approximate house price of $107,200. However, according to NAR statistics the median first-time home was priced at $125,800,[11] a serious disparity of $18,600. In this example alone, a typical downpayment for this first-time homebuyer would have to be $18,600, or 15% down. Indeed, NAR's "affordability" index is determined on an assumed 20% downpayment* which means that this particular definition of "affordability" is already skewed to assume that everyone can or will make a 20% downpayment.

C. Inflexible Mortgage Underwriting Criteria: The Hidden Discriminator

1. The Credit Example

Lack of a strong or solid credit history is another barrier for many Hispanic households. Many immigrant households are more familiar with cash-driven economies and therefore lack the 24-month credit histories required by mortgage

* A 20% downpayment for a median home of $151,400 is $30,280.

underwriters who approve or deny loans.[12] The absence of credit should not be misinterpreted to be equivalent to a bad credit risk. On the contrary, the lack of outstanding credit card or other debt means that many immigrant households can devote a larger share of household income to mortgage payments. But even when underwriting technology improves the speed and efficacy of human underwriters, through programs such as Desktop Underwriter™[13] and Loan Prospector™,[14] if a potential homebuyer does not have a traditional credit history, underwriting technology is not equipped to handle a blank score. The system will typically reject a loan that does not fit its criteria, requiring the loan to be "manually underwritten," i.e., a human underwriter will have to document the file.

While not always leading to a loan denial, applicants with nontraditional credit histories require mortgage support staff to tediously document the paper file. Given the refinance booms of 1997-1998 and late 2001, the market tends to prioritize "easier" and more profitable loans, with computer-approved loans or refinances at the top of the list, pushing manually-underwritten loans to the bottom of the list when allocating staff resources. In other words, the market is not responding to the needs of this segment of the population due to variances from the "standard" mortgage model. This is a significant oversight, given that Hispanics compose 12.5% of the total U.S. population, or 35.3 million people. Credit history as the principal criterion for determining credit worthiness for a mortgage should be more flexible to address variances in the needs of applicants. Standard technological systems, while reducing industry costs, actually create a more rigid and inflexible model for credit approvals.

Other potential homebuyers are deemed to have blemished credit based on average behavioral models of White consumers.[15] These potential homebuyers may not understand how to remedy their credit problems, as the credit industry is a uniquely American and somewhat complicated system involving three separate, yet affiliated, private credit bureaus.* Though the bureaus are regulated by the Fair Credit Reporting Act, they operate largely outside of strict government regulation as private for-profit entities. Increased government regulation might actually improve the services they offer to all consumers. Indeed, in January 2000, the three bureaus were fined $2.5 million by the Federal Trade Commission to require improvements in consumer access when disputing discrepancies or clarifying credit.[16] The fact that these discrepancies may feed mortgage underwriting programs on an even faster and more efficient basis, compounded by problems with consumer access to correct these problems, is troubling.

2. The Multiple Mortgage Example

Affordable homeownership typically involves layering subsidies from both government and private sources for low- to moderate-income homebuyers to purchase their house successfully and remain in the home. This includes the implementation of second and third mortgages,** which have varying amortization

* The three credit bureaus are Equifax, Trans Union, and Experian.

** Known also as Deed of Trust (DT).

schedules. Typically, a “soft”[17] second mortgage is provided to the homebuyer as a second lien on the property to bridge the gap between the higher purchase of the house and the mortgage amount for which the household has qualified based on income. The second lien allows a more affordable or lower first lien on the property and may reduce the expensive mortgage insurance payment calculated based on loan-to-value (LTV), thereby increasing the ability for lower income families to become homeowners by holding the qualification constant. The automated mortgage underwriting technology, similar to the nonexistent credit score, cannot accept the intricacies of layered mortgages as this approach falls outside the parameter of the computer model. Mortgage lending professionals attest to the labor involved in manually underwriting these loans two, three, and sometimes four times, depending on the subsidy involved. Like the nontraditional credit example, the market has had a more difficult time funding these loans due to the time involved in packaging them.

Deviance from the “standard” industry mortgagor profile, demonstrated in the two examples above and numerous others, leads to complications in approvals for mortgages, particularly for potential Latino homebuyers. While the mortgage industry is making strides to improve the technological capacity of these systems, significant barriers remain.

D. Discrimination

Discrimination appears to be a significant deterrent to homeownership for both Hispanic native-born and immigrant households. Indeed, discrimination has been articulated by leading economists as a hindrance to the nation’s economy, as summarized by Alan Greenspan:

> To the extent that market participants discriminate, consciously or more insidiously, unconsciously, capital does not flow to its most profitable uses, and the distribution of output is distorted… In the end, costs are higher, less real output is produced and national wealth accumulation is slowed.[18]

Research has documented high levels of discrimination in the housing industry. In research funded by the U.S Department of Housing and Urban Development (HUD) using matched pairs of “testers,” the Urban Institute found that, ten years ago, more than 50% of Latinos encountered some form of discrimination in the homebuying process.[19] A decade later, a study published by the Urban Institute in 1999 demonstrated that high levels of housing discrimination against Hispanics have not diminished.[20]

Furthermore, although greater attention has been paid to discrimination against Hispanics by private and public enforcement agencies in recent years, Latinos are still underserved by the fair housing enforcement system. For example, currently about 9% of HUD’s fair housing caseload consists of charges from Hispanics. Given their proportion of the population, this figure should be at least 15% (although the 9% level is a significant increase from the 1980s and early 1990s, when Latino charges constituted 5% or less of the HUD caseload).

E. Lack of Outreach to Latino Market

As discussed above, even when not deterred from seeking homeownership by a number of external factors, Hispanic homeseekers are at a significant competitive disadvantage in the housing market, given the issue of lack of consumer information. Many Latino families are unaware of new flexible mortgage products, which offer lower downpayments and other attractive terms. Others are not informed of first-time homebuyer programs and other incentives that can significantly reduce the financial barriers to homeownership. In fact, many Latino home purchasers who could qualify for A-rated mortgages are steered into accepting loans with higher interest rates and higher fees, otherwise known as "subprime loans." As a result, even those prospective homebuyers who do qualify for homeownership often accept less favorable mortgage terms than those for which they should be able to qualify.[21]

While private industry continues to create more flexible products to address variances in the market and in their customers, lack of outreach impedes the use of these improved mortgage products. For example, in a study to determine efficacy of housing counseling by Freddie Mac involving over 40,000 Freddie Gold loans,[22] over 70% of the low- to moderate-income homebuyers[23] who took advantage of Freddie Mac's Affordable Gold[24] product between 1993 and 1998 were Anglo. Only 24% were "minority" homebuyers with no distinction between Hispanic, Black, or Asian households.

Closing the Gap

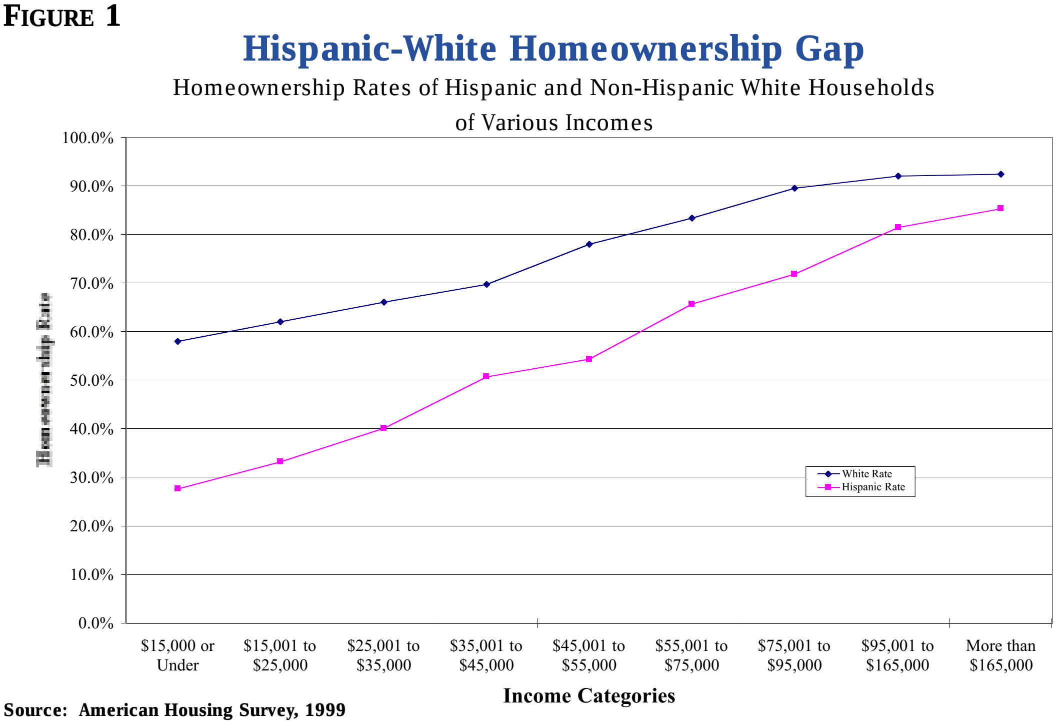
A. Two Million New Hispanic Homeowners?

Despite the overwhelming barriers they often face, Latinos place a high value on homeownership and desire to be homeowners. The Georgetown University study[25] discussed earlier found that over one-quarter of the overall net growth of households in the U.S. is attributable to immigrant growth,[26] which helps spur housing starts. Considering that the majority (approximately 55%) of new immigrants within the last decade is from Latin America (Mexico alone represents almost 40% of new immigrants),[27] more attention is being paid to this market by housing and mortgage industries. This attention is well-deserved.

As Figure 1 on the opposite page shows, there is a gap between the homeownership rates of Whites and Hispanics – at every income level, including among high-income households. At a minimum, these data graphically demonstrate that income differences alone cannot explain a significant proportion of the homeownership gap between Latino and White households.

To estimate the number of new Latino homeowners that could be gained by closing this gap, NCLR determined that if Hispanics could attain the same homeownership rates as White households with similar incomes, the overall Hispanic homeownership rate would rise to well above 60%. Since a 70% Latino homeownership rate would produce a total of 2.1 million more Hispanic homeowner households, and given rapid Hispanic population growth, the achievement of a goal to produce two million new Hispanic homeowners over the next decade would appear achievable, even if existing income disparities remained relatively constant.

FIGURE 1



Source: American Housing Survey, 1999

Achieving this goal of two million new Latino homeowners, although a formidable challenge, is within reach, assuming increased attention and support from both the public and private sectors, as described in the following pages of this brief. NCLR believes that the most effective strategy for increasing Hispanic homeownership rates should focus on expanding access of prospective Latino homebuyers to well-designed housing counseling programs, which are discussed below.

B. THE INVISIBLE INDUSTRY: HOUSING COUNSELING AND EDUCATION

Housing counseling can be defined as individualized consumer education provided to households with an identified housing need or barrier. HUD, for example, categorizes counseling into pre-purchase, post-purchase, renter, and homeless counseling.[28] Prior to the 1990s, most counseling emphasized post-purchase counseling, the majority of which focused on default/delinquency prevention, due to high foreclosure rates in major American real estate economies in the 1980s.

The robust economy of the 1990s saw the housing counseling industry shift toward pre-purchase counseling, due to historically low interest rates, the introduction of new, more affordable mortgage products, and the development of more flexible underwriting requirements. Increasingly, the mortgage industry required a small downpayment (3%) from varied sources (not necessarily borrower's funds) and only a 24-month credit history even for households with bankruptcies, thanks in part to the advent of mortgage insurance companies. Mortgage insurance companies insured the mortgage lender in the event of foreclosure for loans with greater than 80% LTV, the basis for lower downpayments. This decade also saw the explosion of community development corporations (CDCs) and community housing development organizations (CHDOs), focusing on housing and related issues. Traditional housing counseling agencies reflected this change by focusing more on pre-purchase counseling and homebuyer education, and development organizations branched out into housing counseling to complement their housing development programs.

C. Empirical Data on Housing Counseling Effectiveness

Despite the relative youthfulness of the industry, there is a growing body of research which demonstrates the effectiveness of pre-purchase housing counseling. For example, an independent evaluation of an early NCLR pilot program showed that pre-purchase counseling enabled even low-income Latino participants to become homeowners. A study by the Freddie Mac Corporation, focusing on pre-purchase counseling, found that loan performance improves based on the manner in which housing counseling is delivered.[29] Specifically, data confirmed that face-to-face counseling reduced the probability by 34% that those mortgagors would be 90 days or more delinquent on their mortgage payments if counseling was provided individually, and by 26% if it was provided in a classroom environment. "Homestudy," a program in which potential homebuyers take a workbook home and complete worksheets, also reduced 90-day delinquency by approximately 21%. In comparison, counseling delivered via telephone – often the preferred choice of profit-motivated agents such as mortgage lenders, real estate agents, and mortgage insurers – was found not to mitigate investor risk. In other words, telephone methods could not be statistically proven to be effective, which calls into question its continued use.

Increasing Hispanic Homeownership: A Latino-Focused Strategy

A. Overview and Approach

The Freddie Mac Corporation study further confirms NCLR's belief that effective counseling should be done in a person-to-person manner, as housing counseling proponents have argued for years. Unfortunately, because this particular delivery of counseling is labor intensive and, therefore, costly, lenders often choose cheaper, but less effective ways of "counseling." Nonprofit housing counseling represented only 3% of the counseled loans used in the above-mentioned study, demonstrating the need to expand this area of housing counseling and the opportunity for market growth in this area.

In 1994, Congress provided a boost to the industry through new funding to HUD to establish a network of organizations focused primarily on pre-purchase housing counseling. Many of these organizations have produced significant, measurable increases in homeownership rates of targeted groups in selected markets. This development has been noted by HUD Secretary Mel Martinez who has recommended a $15 million increase in the program from the previous year.[30]

Many key industry players have also focused greater attention on housing counseling and other homebuyer education strategies, and much of this attention has been focused on reducing the minority homeownership gap. A "professionalization" of housing counseling is being undertaken by many key industry players to improve the quality of housing counseling, evidenced by the creation of the American Homeowner Education & Counseling Training Institute (AHECTI). Others are focused on utilizing new telecommunications technology to ease the homebuying process. However, NCLR believes that technology cannot replace human interaction in the educational process of homebuying, as substantiated by Freddie Mac's study.

B. Increase Funding for CBOs Involved in Homeownership Initiatives

Despite this overall enthusiasm for housing counseling, now substantiated with research, Latino households continue to be underserved by this industry. This is due in part to the insufficient capacity of Hispanic community-based organizations (CBOs) to provide housing counseling. Although Hispanic CBOs are uniquely able to serve Hispanics due to their visibility and credibility in the neighborhoods in which they are based, they often do not have staff trained in the mortgage or housing industry. In addition, relatively few mainstream housing counseling providers have the capacity to serve the Latino community effectively, since they often lack bilingual materials and counselors, are not located in Hispanic neighborhoods and have not reached out to prospective Latino homebuyers, among other reasons. For these reasons, NCLR believes that greater public and private support to Latino CBOs providing housing counseling services is an essential component of any strategy to increase Hispanic homeownership rates.

C. Increase Funding to CDFIs

Some private investment institutions, such as Bank of America and State Farm Insurance, have supported the increase of new homeowners by providing financing to promote affordable housing opportunities through Community Development Financial Institutions (CDFIs), such as NCLR's subsidiary, Raza Development Fund (RDF). RDF supports housing development and other community development activities by providing funds from institutional investors to affiliates in the form of below-market financing.* CDFIs allow more flexible underwriting criteria for younger and less experienced nonprofit housing developers, while providing them with more intense technical assistance than a bank commercial loan officer can provide.

CDFIs and other nontraditional financial institutions are an important element in any strategy to increase homeownership rates, because they affect the supply side of the

* RDF's business plan calls for 40% of its funding to be directed to housing. About half of this amount has historically gone to support single-family housing for homeownership. All of NCLR's housing counseling agencies are eligible for this funding and, to date, eight out of 20 have either received a low-cost loan or are in the process of applying for a loan for affordable housing development projects.

The Value of Housing Counseling: The NCLR Experience

In the early 1990s, a number of housing intermediaries, including NCLR, expanded efforts to increase homeownership rates of Hispanics and other ethnic minorities through housing counseling. NCLR's effort began in Arizona with a pilot program implemented through a partnership involving Fannie Mae, First Interstate Bank, the Arizona Housing Alliance (AHA),[1] and NCLR. Known as the "Home To Own" program, the pilot operated from 1993 to 1995, and had five principal components: targeting of low-income families, flexible underwriting criteria, a link to mortgage financing, mandatory pre-purchase housing counseling, and downpayment assistance.[2]

By all accounts, the program was extraordinarily successful. According to an independent evaluation of the program by the Morrison Institute at Arizona State University:

- Home To Own successfully targeted a very low-income population - more than 70% of program participants (successful borrowers) earned below 60% of Area Median Income (AMI), while nearly half had incomes below 50% of AMI. Typically, previous affordable homeownership programs were considered successful if they reached borrowers at or below 80% of AMI.
- More than 90% of participants reported that the counseling they received was "very worthwhile," that it made them more confident about the homebuying process, and that they would recommend the counseling to others.
- Surprisingly, program participants found counseling to be much more important than downpayment assistance.
- Despite the perceived high-risk characteristics of the population, the Home To Own portfolio has performed extraordinarily well. The overall industry average for delinquencies and foreclosures is about 4%; for Home To Own the comparable rate has been about 1%.
- Even those prospective homebuyers who failed to complete the process found counseling to be very useful; 82% said the knowledge they gained would be very helpful the next time they tried to buy a home.[3]

Based on the success of the pilot program, NCLR rapidly expanded its focus on increasing homeownership for low-income Latino families. In 1998, with funding from Bank of America (then NationsBank) and HUD, NCLR launched its first multistate housing counseling initiative. Initially limited to ten sites, the NCLR Homeownership Network (NHN) program has doubled in size over the past two years.[4] Overall, including Home To Own and NHN, NCLR's participating affiliates have:

- Counseled more than 35,000 low-income Latino families about homeownership
- Assisted nearly 5,000 low-income Hispanic families to become homeowners
- Helped these families maintain delinquency and foreclosure rates well below industry averages

Just as important, efforts by NCLR and other innovative housing counseling organizations have paved the way for a more flexible underwriting criteria and a host of new affordable mortgage products, whose effectiveness was demonstrated by Home To Own and other similar programs. Thus, many of the "innovative" practices pioneered through pilot projects like Home To Own in the early 1990s have been adopted industry-wide, less than a decade later.

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1. A coalition of Latino CBOs in Arizona, including Housing for Mesa, Chicanos Por La Causa, Housing America Corporation, and NCLR.

2. The specific program elements included:

   - Targeting: Home To Own was unusual in that it targeted low-income, and not just moderate-income families. The program was designed such that 100% of participants would earn below 80% of the Area Median Income (AMI), and 80% of participants would earn below 60% of AMI. The goal of the program was to produce 500, first-time, low-income Latino homebuyers.
   - Flexible Underwriting: Based on anecdotal evidence that the industry's traditional underwriting criteria excluded many credit-worthy Latino families, Fannie Mae agreed to negotiate more flexible standards with NCLR and the AHA. Among the innovations produced were substitution of nontraditional evidence of credit-worthiness, such as regular payments of rent and utility bills for families with little or no credit history, and greater acceptance of multiple sources of income to calculate mortgage eligibility, given the multigenerational nature of many Hispanic households.
   - Mortgage Financing: First Interstate Bank agreed to provide mortgage financing to program participants who met the revised, more flexible criteria, and Fannie Mae agreed to purchase these loans.
   - Downpayment Assistance: Through a variety of public and private sources, program participants were provided small grants to help them make downpayments.
   - Mandatory Pre-purchase Housing Counseling, provided by Hispanic CBOs and supported in part with funding from Fannie Mae and First Interstate Bank, with extensive technical assistance from NCLR.

3. Johnson, Ryan M. and Elsa Macias, "Home to Own: A New Model for Community-Based Low-Income Mortgage Lending," Tempe, AZ: Morrison Institute for Public Policy, Arizona State University, 1995.

4. The NCLR Homeownership Network (NHN) currently consists of over 20 Hispanic community-based organizations (CBOs) in nine states operating in 18 different real estate markets. NHN currently serves approximately 15,000 households and 2,230 new homeowners annually. NHN addresses language barriers by providing both education classes in Spanish and counseling through bilingual counselors. NHN is assisting Hispanic CBOs that in many cases are social service organizations to add a professional housing counseling component

equation. The lack of affordable housing – both owner-occupied and rental – is attributable in large part to the fact that market dynamics discourage developers from building such housing. To oversimplify, developers receive much higher profits from housing units targeted to the middle-income and upscale market, even though such units are only slightly more expensive to build and maintain than more affordable housing units. Not surprisingly, the housing market niche targeted to lower-income families is underutilized as private developers and lenders gravitate toward higher-profit middle and upscale housing developments. Nonprofit developers, with assistance from CDFIs and other sources of nontraditional financing, focus almost exclusively on filling this market niche by building affordable units.

D. Modernize the Housing Counseling Industry

Currently, NCLR is at the forefront of a new set of innovations – using new telecommunications technology to expand homeownership opportunities for Hispanic Americans. At a Capitol Hill briefing in June 2001, NCLR, Freddie Mac, NAHREP, and Real Estate Español unveiled a new Web-based client management tool for housing counselors designed to improve the efficiency and effectiveness of the homebuying process for Latino families. The new software will replace a cumbersome, time-consuming, paper-based system and will enable counselors to build streamlined, complete, lender-ready electronic client files that accurately record and track a client's progress over time – even when the process takes several months or more. The software's evaluation tools will help counselors quickly and accurately assess a client's readiness to buy a home. Less time spent on paperwork will allow counselors more time to work with more clients and enable them to link online to "RealEstateEspanol.com" for real estate listings, lenders, real estate professionals, and underwriting information.

The following section lays out an agenda for the public and private sectors to pursue in order to achieve this objective and underscores the potential benefits to the Hispanic community and to the nation of increasing Latino homeownership rates.

E. Public Policy Recommendations

There is much that the federal government can do to increase Hispanic homeownership rates. HUD Secretary Mel Martinez has emphasized his intention to help close the homeownership gap, and recently announced a major downpayment assistance program to help first-time homebuyers, in addition to an increase in housing counseling resources. While these are important first steps, the Administration and the Congress can do much more to increase Latino homeownership, including:

- **Providing greater federal support for housing counseling**, an essential component of any strategy designed to increase homeownership in the Hispanic community. Specifically:
    - **Increasing funding for the HUD Housing Counseling Program.** Designated by the Bush Administration for funding at $35 million for FY 2003, a coalition of other counseling intermediaries including NCLR has called for an increase to $50 million. This increase is needed to help replicate and expand this proven strategy to many markets where Latinos are severely underserved.

- **Reinstating mandatory counseling for FHA borrowers.** Despite Freddie Mac's research demonstrating the efficacy of counseling in reducing risk of delinquency and foreclosure, HUD has inexplicably removed previous counseling requirements for certain lower-income FHA loan borrowers. This requirement should be reinstated immediately.
- **Removing HUD fee restrictions.** Under current rules, HUD-funded housing counseling agencies are prohibited from charging fees to counseling clients, a restriction that unnecessarily limits expansion of services to meet the demand. Certified nonprofit counseling agencies should be permitted to charge fees, with appropriate consumer protections.
- **Clarifying Section 8 of the Real Estate and Settlement Procedures Act of 1974 (RESPA).** Under current RESPA guidelines, nonprofit housing counseling agencies that receive compensation from a lender for counseling provided to a borrower are not clearly distinguished from mortgage brokers, whose fees are regulated under RESPA. This confusion has deterred some lenders from paying fees to nonprofit counseling agencies for completed mortgage applications. Private industry should be allowed to pay, and nonprofit counseling services should be allowed to receive, compensation for counseling services without fear of violating RESPA.
- **Promoting an increased supply of homes affordable to low- and moderate-income buyers.** Counseling, outreach, and marketing strategies help increase the effective Latino demand for housing, but do not ensure an adequate supply. Among the steps that could be taken to increase this supply are fully funding CDFIs, many of which support housing production activities; the CDFI program is now slated for a 25% cut in the proposed FY 2003 budget. The Section 8 homeownership program has given a boost to public housing agencies to encourage clients to achieve the dream of homeownership. Recently, a tax credit to builders of affordable owner-occupied housing, modeled roughly after the existing Low Income Housing Tax Credit program for rental housing, has been proposed. NCLR supports these programs and other efforts to increase the supply of affordable housing.
- **Expanding fair housing, fair lending, community reinvestment, and related activities** on behalf of prospective Latino homebuyers. Increased funding for fair housing and fair lending activities, which currently severely underserve Hispanics, is greatly needed. Similarly, strict and vigorous enforcement of the Community Reinvestment Act (CRA) would encourage greater investments by financial institutions in Latino neighborhoods. In addition, although RESPA should not be mis-applied to nonprofit counseling organizations, it should be enforced more effectively. Tougher RESPA enforcement would deter

certain predatory lending practices, particularly the addition of so-called "yield spread premiums," which research demonstrates have a disparate, negative impact on minority homebuyers.

- **Establishing a Hispanic Homeownership Initiative.** The private sector, working in partnership with the government, should also do more to increase Latino homeownership. NCLR believes that a Hispanic Homeownership Initiative tailored to the specific needs of, and building on more than a decade of successful experience in, the Latino community should be implemented. This could be modeled on the initiative established last year by the Congressional Black Caucus Foundation and industry to increase the African American homeownership rate. Specifically, this Initiative should have four principal objectives:

  - **To identify, replicate, and expand proven "best practices"** that facilitate Latino access to homeownership, including:

    - Promoting increased public and private sector support for effective pre- and post-purchase housing counseling services by Latino community-based organizations (CBOs)

    - Increasing Hispanic homebuyer access to other supports, including flexible mortgage products and downpayment assistance programs

    - Expanding access to bilingual and culturally appropriate curricula and educational materials by CBOs and other key players in the real estate and mortgage lending process

  - **To conduct targeted, public awareness/social marketing media campaigns** linking prospective homebuyers to sources of counseling and other assistance, by:

    - Conducting public opinion research to identify media messages and themes that encourage qualified Latino families to seek homeownership opportunities

    - Implementing targeted campaigns in selected markets with existing or new capacity to assist prospective Latino homebuyers

  - **To explore new, innovative, or emerging strategies** that demonstrate promise in increasing the Hispanic homeownership rate, by:

    - Assessing the impact of, and making recommendations to maximize, the growing use of automated underwriting systems in expanding Latino homeownership opportunities

    - Testing the viability of emerging technologies, including Internet-based and other online strategies, as a means of expanding CBO and Latino homebuyer access to information

- Expanding Hispanic immigrants' access to homeownership, through new "immigrant-friendly" mortgage products, use of "hometown associations" to promote homeownership, or targeting geographic areas with emerging Latino immigrant communities
- Supporting a full-cycle approach to the affordable housing crisis by increasing the supply of, as well as the demand for, affordable owner-occupied housing units

- **To strengthen and/or build the capacity of key institutions** that can contribute significantly to growth in Latino homeownership rates, including:
  - Supporting association(s) of Latino real estate agents, and facilitating the expansion of recruitment and training programs designed to increase the number of bilingual/bicultural real estate agents
  - Promoting increased employment of Latino and bilingual/bicultural loan officers and other professionals in the financial services industry, through training and internship programs
  - Nurturing the development and growth of the number of qualified Latino and/or bilingual housing counselors, and the strengthening of a professional association for the field, such as AHECI.

Conclusion

The evidence presented in this brief clearly illustrates a gap in Hispanic access to the primary source of net worth and wealth for Americans: homeownership. Even when controlling for income, Hispanic households continue to be underrepresented in the ranks of homeowners. Although the mortgage industry has implemented improvements in underwriting due to credit scoring and other technology in the last five years, which has greatly increased access of lower-cost loans to first-time homebuyers, a large homeownership gap still remains, and many Hispanics may be adversely affected by some of these "improvements."

However, there is much reason for optimism. NCLR's experience and the empirical evidence strongly suggest that a strategy centered on expanding Latino access to community-based housing counseling programs can increase Hispanic homeownership rates significantly. Since a major expansion in this capacity can occur with relatively modest public and private sector investment, and because such investments are also proven to reduce delinquencies and foreclosure rates, this housing counseling-focused approach is eminently achievable.

Increasing the rate of Latino homeownership would obviously benefit the individual families affected, as well as the Hispanic community overall. But this would also provide significant benefits for the entire society. Viewed from the perspective of the mortgage and real estate industries, the Hispanic market represents a huge potential source of new mortgage loans, estimated here to be about two million households, translating into approximately $182 billion in potential loan originations.

From a macroeconomic perspective, previous NCLR research has demonstrated how all Americans would benefit from improvements in the economic status of Latinos, given the rapid growth of this community.[31] But the gains to all Americans from a higher Latino homeownership rate are not limited to dollars alone. Research also shows that communities benefit substantially from increased rates of homeownership, since neighborhoods with higher proportions of owner-occupied homes are more stable, attractive, and socially cohesive than comparable areas. For these reasons, and countless others too numerous to list here, a national commitment to increasing Hispanic homeownership is long overdue. This brief provides one strategy for turning this commitment into reality for two million potential Latino homeowners.

Endnotes

1. U.S. Bureau of the Census, "Census Bureau Reports on Residential Vacancies and Homeownership," Press Release, October 25, 2001, Table 7. Rates of growth calculated by NCLR based on Census data.

2. "Survey Finds Lack of Homeownership Education is Leading Barrier to American Dream Among Hispanics," Press Release, National Association of Hispanic Real Estate Professionals, November 11, 2000.

3. Schoenholtz, Andrew and Kristin Stanton, *Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans*, Washington, DC: Georgetown University Institute for the Study of International Migration, 2001.

4. According to the Census Bureau, in 2000, nearly nine in ten Whites (88.4%) and about eight in ten African Americans (78.9%) ages 25 and over had at least a high school diploma, compared to less than six in ten Hispanics (57%).

5. *Saving Affordable Housing: The Housing Crisis*, Washington, DC: National Housing Institute, 2001.

6. Defined as spending more than 30% of income on housing.

7. According to the National Low Income Housing Coalition's "Low Income Housing Profile," 28% of Hispanic renter households had severe housing burdens (paying more than 50% of household income on housing) compared to 27% of Black and 19% of White households; 35% of Hispanic households had moderate housing burdens (paying between 30%-50% of income on housing) compared with 29% of Blacks and 24% of Whites. In all of these statistics, "burden" is defined to include inadequate housing or overcrowded conditions.

8. Otherwise known as Home Equity Conversion Mortgages (HECM).

9. "Home Price Pressures Starting To Ease, Gains Still Strong," Press Release, National Association of Realtors, November 14, 2001.

10. "Housing Affordability Index," Research table compiled by the National Association of Realtors, 2002.

11. "Housing Affordability Rises to 27-Year High, NAR Reports," Press Release by National Association of Realtors, February 1, 2002.

12. Credit history rule is documented in Federal Housing Administration and conventional underwriting guidebooks.

13. The trademarked underwriting software of the Federal National Mortgage Association (FNMA), commonly known as Fannie Mae.

14. The trademarked underwriting software of the Federal Home Loan Mortgage Corporation (FHLMC), commonly known as Freddie Mac.

15. For example, a creditor extending revolving credit such as a credit card will require the consumer to pay back the loan in monthly installments, regardless of the balance or minimum monthly payment. Latino immigrant households, preferring not to be indebted, will often pay back the loan amount in full, but may take several months to do so, not being fully conscious of the minimum monthly payment requirement. This results in derogatory credit on their report when minimum payment is not received for their monthly installment, even when their balance is paid in full.

16. "Nation's Big Three Consumer Reporting Agencies Agree to Pay $2.5 Million to Settle FTC Charges of Violating Fair Credit Reporting Act," Press Release, Federal Trade Commission, January 13, 2000.

17. Defined as "soft" because it incurs no hard or cash costs; these loans are typically forgivable.

18. "Economic Development and Financial Literacy," Remarks by Chairman Alan Greenspan, Ninth Annual Economic Development Summit, The Greenlining Institute, Oakland, California, January 10, 2002.

19. Turner, Margery Austin, Raymond J. Struyk, and John Yinger, *HUD Housing Discrimination Study: Synthesis*, Washington, DC: U.S. Department of Housing and Urban Development, 1991.

20. Yinger, John, *Testing for Discrimination in Housing and Related Markets*, *A National Report Card on Discrimination in America: The Role of Testing*, Washington, DC: Urban Institute, March 1999, pp. 24-26.

21. *Predatory Mortgage Lending Practices: Abusive Uses of Yield Spread*, Hearing before the Senate Committee on Banking, Housing, and Urban Affairs, Testimony of Prof. Howell Jackson, Harvard Law School, Washington DC, January 8, 2002.

22. Hirad, Abdighani and Peter M. Zorn, *A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling*, McLean, VA: Freddie Mac Corporation, May 22, 2001.

23. Defined by Freddie Mac program regulations as any household under 100% of Area Median Income as defined by the U.S. Department of Housing and Urban Development; updated annually.

24. With increased LTV ratios, decreased downpayment requirements, and more flexible sources of credit.

25. *Reaching the Immigrant Market*, op. cit.

26. Ibid, p. 2

27. Ibid, pp. 12-13

28. As evidenced in HUD Form 9902, used for reporting outcomes for housing counseling funding. These categories encompass potential mortgagor assistance; homeowner assistance, such as default delinquency, loss mitigation, and reverse mortgage counseling; and renter, pre-renter, and homeless assistance.

29. *A Little Knowledge Is a Good Thing*, op. cit.

30. "$31.5 Billion HUD Budget Expands Homeownership Opportunities, Rental Assistance And Economic Development," Press Release, U.S. Department of Housing and Urban Development, February 4, 2002.

31. Pérez, Sonia M., ed., *Moving Up the Economic Ladder: Latino Workers and the Nation's Future Prosperity*, Washington, DC: National Council of La Raza, 2000.