

# The Role of Mortgage Brokers in the Latino Community

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# National Council of La Raza

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- ▣ The National Council of La Raza (NCLR) is the largest national Hispanic civil rights and advocacy organization in the U.S., established to reduce poverty and discrimination and improve life opportunities for Hispanic Americans.

# Overview

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- ❑ Who are Mortgage Brokers?
- ❑ Intermediaries in Latino Communities
- ❑ Why Latinos Use Mortgage Brokers
- ❑ Why Lenders Use Broker Services
- ❑ Risks in Using Mortgage Broker Services
- ❑ A Balanced Marketplace
- ❑ Recommendations
- ❑ NCLR Publications

# Who are Mortgage Brokers?

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- Independent agents
- Diverse workforce and neighborhood locations
- Estimated 53,000 brokerage companies nationwide (2004)
- Responsible for more than two-thirds of the nation's mortgage originations

# Who are Mortgage Brokers?

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- Generally regulated at the state level
  - Federal lending laws apply, such as RESPA, HOEPA, and TILA
- Little to no financial risk in the mortgage transaction
- Act as an intermediary between the lender and the borrower

# Intermediaries in Latino Communities

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- Retail lenders are not tapping the Latino market:
  - Limited outreach from mainstream lenders
  - Limited experience in the conventional financial market
  - Latino families face a number of unique underwriting challenges:
    - “Thin” or no credit history
    - Multiple sources of income
    - Unverifiable assets
    - Multiple wage earners

# Intermediaries in Latino Communities

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- Intermediaries connect disenfranchised communities with lenders.
- Mortgage brokers are the most prolific intermediaries in the mortgage market.
  - Other intermediaries include housing counselors and the Internet

# Why Latinos Use Mortgage Brokers

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- Culturally and linguistically competent
- Personalized, one-on-one approach
- Seem to offer the best deal
- Less intimidating alternative to banks (flexible hours, bilingual, locally positioned)



# Why Lenders Use Brokers Services

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- ❑ Mortgage brokers are a cheaper alternative to retail banking
- ❑ Relieve lenders of some liability
- ❑ Better access to hard-to-serve customers
- ❑ Established in the marketplace

# Risks in Using Mortgage Broker Services

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- ❑ Borrower only sees what the broker presents, not all offers available
- ❑ Difficult to shop between competing brokers
- ❑ Brokers may mark up loan prices or otherwise not look out for the interests of the borrower
- ❑ Brokers may give bad loan advice as a result of their being under-educated
- ❑ Brokers suffer few consequences for making bad loans

# Risks in Using Mortgage Broker Services

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- Latino families are especially vulnerable:
  - Perception that the broker is someone they can trust to help them make financial decisions:
    - Abuse of cultural connection
    - Belief that the broker works on their behalf
  - Perception that they will find them the best deal
  - Unlikely to stop the process at the closing table

# Risks in Using Mortgage Broker Services

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- These risks emerge because:
  - Largely unregulated at the federal level
  - Broker is an independent agent
  - Transaction lacks transparency
  - Significant potential for abuse
  - Uneven state licensing and education requirements

# A Balanced Marketplace

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- ❑ The role of the mortgage broker as a market intermediary is too important to be neglected in the dialogue on predatory lending.
- ❑ We must seek balance between functionality and accountability which protects the integrity of the market.
- ❑ Consumers need information and safeguards that mitigate their risks as well as lenders and brokers.

# Recommendations

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- ❑ Create a federal regulatory structure that would monitor the activities of mortgage brokers.
- ❑ Create transparency in the broker-borrower relationship by disclosing on whose behalf they are working and negotiating fees upfront.

# Recommendations

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- Create accountability standards, including:
  - Prohibition of steering
  - Duty of fair dealing
  - Evaluation of affordability (suitability)
  
- Force brokers to bear some of the risk in mortgage transactions.

# NCLR Publications

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- ❑ *The Impact of the Home Equity Lending Market on Latino Consumers.* Testimony before The Board of Governors of the Federal Reserve System, June 2006.
- ❑ *Home Mortgage Disclosure Act: Newly Collected Data and What it Means.* Testimony before U.S. House of Representatives Committee on Financial Services, Subcommittee on Financial Institutions, June 2006.
- ❑ *Jeopardizing Hispanic Homeownership: Predatory Practices in the Homebuying Market,* 2005.