

ARRESTED DEVELOPMENT: FORECLOSURES ERODING THE LATINO COMMUNITY

Introduction

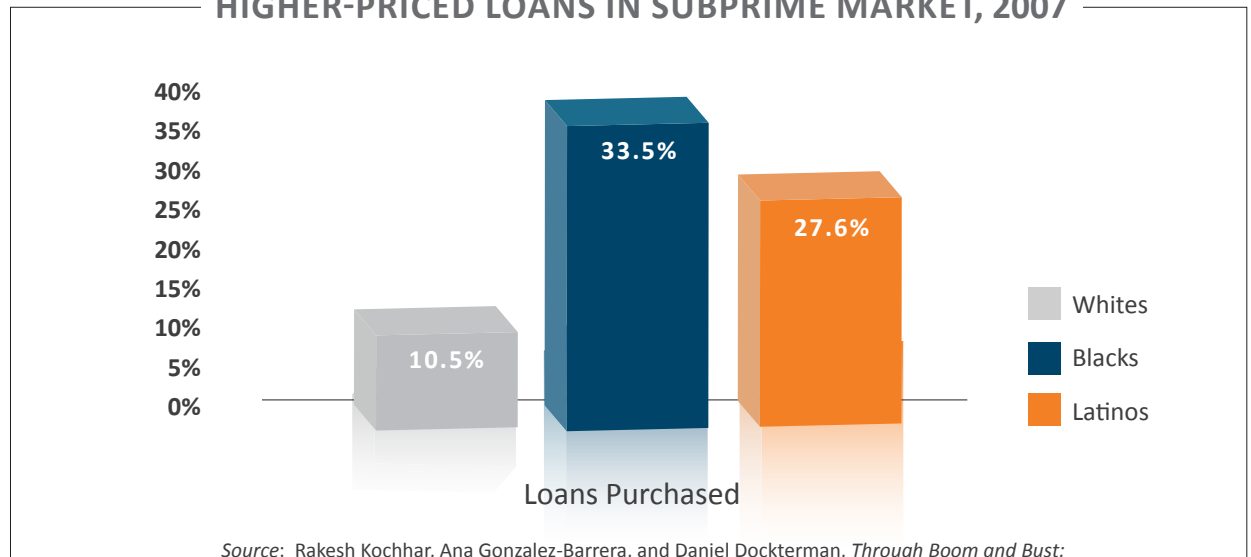
Like many Americans, Latinos* have been deeply affected by the housing industry's meltdown.† They are particularly vulnerable, however, as 85% of the hardest-hit neighborhoods—where the default rate is at least double the regional average—are those in which the majority of homeowners are Black and Latino.¹ Few of these families have assets other than a home to rely on as a safety net. In fact, minority households hold only a fraction of the assets owned by White households, leaving them more vulnerable to economic distress.² More than 40% of Latino households are at risk of slipping out of the middle class due to the downturn, and they will encounter great difficulty in securing a nest egg or building a strong foundation for their children.³

Latinos were frequently caught in the mortgage trap as first-time homebuyers.

During the lending boom of the past decade, Hispanic families pursued the American Dream of homeownership in record numbers. While significant progress was made toward reducing the gap between White and Hispanic homeownership rates, many Latino families were sold a risky and expensive mortgage to finance their home purchase.⁴ Not only do such loans carry a higher risk of default and foreclosure, but they generally leave homebuyers with little equity to fall back on in hard times. This trend, along with other economic conditions, has contributed to a decline in Latino homeownership.⁵

Figure 1

HIGHER-PRICED LOANS IN SUBPRIME MARKET, 2007



* 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.

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Latinos were often steered into higher-cost loans even though they qualified for better subprime or prime loans. Market trends show a disparity in the distribution of products; minority applicants are disproportionately subjected to inflated interest rates and abusive terms. In 2006 and 2007, Hispanics were two and a half times as likely as Whites to receive a higher-priced loan (see Figure 1).⁶ Even after controlling for legitimate risk factors, Latino families received higher-rate subprime loans at a frequency disproportionate to their White peers.⁷ Many were sold adjustable rate mortgages with “teaser” rates, negative amortization loans, and other risky products that make default more likely—even when they had good credit.⁸

Hispanic neighborhoods have sustained comprehensive and lasting damage. In 2008, more than three in five (62%) Latino homeowners saw foreclosures in their neighborhoods.⁹ Since January 1, 2006, banks have taken back 6.7 homes per 1,000 residents in counties where Hispanics account for more than 25% of the population, compared with 4.6 homes per 1,000 residents in all counties.¹⁰ As homeowners are pushed out, crime often takes their place, causing rapid deterioration of neighborhoods and surrounding communities.¹¹

The market plunge has resulted in substantial loss in wealth for Hispanic families. Home equity accounts for approximately two-thirds of Hispanic families’ net wealth, and is likely to be the only appreciating asset a family owns.¹² Immigrant and minority populations are known to have more limited participation in financial markets than the general population.¹³ This significantly impacts Latinos’ options in developing assets or recovering through ventures.¹⁴ Latinos have a difficult time rebuilding financial stability after foreclosure, especially since home loss is often coupled with job loss. Construction, for example, has been a mainstay for job growth among Hispanic workers, but the widespread discontinuation of current and future building projects has had a sweeping effect on the community. Hispanics lost nearly 250,000 jobs in 2008 alone because of the slump in the construction sector.¹⁵

Conclusion

From their jobs to their neighborhoods, Latinos have suffered severely from the foreclosure mess and have lost substantial wealth. A recent study projects that in 2009, more than 400,000 foreclosures will occur among Latino families alone.¹⁶ While many Americans have an uphill battle ahead, the foreclosure crisis and its aftershocks have shaken Latino households to the foundation and will continue to threaten their financial stability.

Endnotes

¹ Michael Powell and Janet Roberts, “Minorities Affected Most as New York Foreclosures Rise,” *The New York Times*, May 15, 2009, <http://www.nytimes.com/2009/05/16/nyregion/16foreclose.html?hp> (accessed May 16, 2009).

² Rakesh Kochhar, *The Wealth of Hispanic Households: 1996 to 2002* (Washington, DC: Pew Hispanic Center, 2004).

³ Jennifer Wheary et al., *Economic (In)security: The Experience of the African-American and Latino Middle Classes* (New York, NY and Boston, MA: Dēmos and IASP, 2008), <http://iasp.brandeis.edu/pdfs/byathreadlatino.pdf> (accessed May 14, 2009).

⁴ Allen Fishbein and Patrick Woodall, *Exotic or Toxic? An Examination of the Nontraditional Mortgage Market for Consumers and Lenders* (Washington, DC: Consumer Federation of America, May 2006), http://www.consumerfed.org/pdfs/Exotic_Toxic_Mortgage_Release052406.pdf (accessed May 20, 2009).

⁵ For further discussion on trends in Latino homeownership, see the following: *Impacts of Changes in the Home Mortgage Market on Hispanic Homeowners in Pennsylvania and Delaware* (Washington, DC: The Reinvestment Fund, April 2009), <http://www.trfund.com/misc/fhlbreport-draft.pdf>; U.S. Bureau of the Census, *American Housing Survey*, Washington,

DC, 2003; Janis Bowdler, *Jeopardizing Hispanic Homeownership: Predatory Practices in the Homebuying Market* (Washington, DC: National Council of La Raza, 2005); Chris Mayer and Karen Pence, *Subprime Mortgages: What, Where, and to Whom?*, in "Finance and Economics Discussion Series," for Divisions of Research & Statistics and Monetary Affairs (Washington, DC: Federal Reserve Board, 2008), <http://www.federalreserve.gov/pubs/feds/2008/200829/200829pap.pdf>.

⁶ Rakesh Kochhar, Ana Gonzalez-Barrera, and Daniel Dockterman, *Through Boom and Bust: Minorities, Immigrants, and Homeownership* (Washington, DC: Pew Research Center, 2009), <http://pewhispanic.org/files/reports/109.pdf> (accessed May 19, 2009).

⁷ Debbie Gruenstein Bocian, Keith S. Ernst, and Wei Li, *Unfair Lending: The Effect of Race and Ethnicity on the Effect of Subprime Mortgages* (Washington, DC: Center for Responsible Lending, 2006), http://www.responsiblelending.org/pdfs/rr011-Unfair_Lending-0506.pdf (accessed May 20, 2009).

⁸ *Exotic or Toxic*.

⁹ *Hispanics and the Economic Downturn*.

¹⁰ Susan Schmidt and Maurice Tamman, "Housing Push for Hispanics Spawns Wave of Foreclosures," *The Wall Street Journal*, January 5, 2009, <http://online.wsj.com/article/SB123111072368352309.html> (accessed May 20, 2009).

¹¹ "Minorities Affected Most."

¹² *The Wealth of Hispanic Households*.

¹³ Una Okonkwo Osili and Anna Paulson, *Understanding Immigrant-Native Differences in Financial Market Participation, WP 2004-18* (Chicago, IL: Federal Reserve Bank of Chicago, December 2006).

¹⁴ *Economic (In)security*.

¹⁵ *Latino Labor Report 2008: Construction Reverses Job Growth for Latinos* (Washington, DC: Pew Hispanic Center, June, 2008), <http://pewhispanic.org/reports/report.php?ReportID=88> (accessed January 30, 2009).

¹⁶ *Projected Foreclosures to Latinos by State* (Durham, NC: Center for Responsible Lending, 2009).

