



Saving Homes, Saving Communities

Latino Brokers Speak Out on Hispanic Homeownership

NATIONAL ASSOCIATION OF HISPANIC REAL ESTATE PROFESSIONALS
NATIONAL COUNCIL OF LA RAZA





Saving Homes, Saving Communities

Latino Brokers Speak Out on Hispanic Homeownership



The National Association of Hispanic Real Estate Professionals (NAHREP) believes in equal access to homeownership for all Hispanic Americans. Last year, our members originated approximately \$65 billion in home purchases, representing nearly 25 percent of the total homes purchased by Hispanics in 2006. Our members are committed to increasing the sustainable Hispanic homeownership rate by serving Hispanic consumers ethically and professionally.

Every day in the course of our work we see the economic strength that homeownership provides Hispanic families. We also see the emotional turmoil and financial ruin that comes with foreclosure. Each day distressed homeowners with no options are losing their homes as mortgages reset and payments move beyond their reach.

Early in 2007, Janet Murguía of the National Council of La Raza (NCLR) invited NAHREP to discuss our joint interest in addressing the housing needs of Hispanics in America. As a community, we have all come to depend on NCLR's expertise and leadership in human rights, housing policy and community-based services. Their housing counseling affiliates offer a great compliment to NAHREP's more than 14,000 real estate professionals working in communities across the nation to ensure sustainable housing opportunities for Latino families. Our synergies were immediately identified, and our commitment to jointly serving the needs of our community was launched.

First on our agenda was determining how to protect Hispanic homebuyers from predatory practices. Hispanics are now shouldering a disproportionate burden in the default and foreclosure rates across the country, leading to an obvious question: How did this happen? NAHREP members were asked for their perspective through a series of roundtable discussions conducted across the nation this summer in partnership with NCLR. Our members have proven to be ethical in their approach to servicing the community and we felt they could offer an insider's perspective on best practices for serving our people. Their insights regarding predatory behavior were illuminating. Common themes resonated and pointed to troublesome trends not being raised in the national debate until now.

The intent of this report is not to isolate and lay blame. We believe these complex issues are systemic and must be addressed at a fundamental service level – where a new standard of practice is the rule, not the exception, and predatory behavior is heavily penalized.

We wish to thank NCLR CEO Janet Murguía and NCLR Senior Housing Policy Analyst Janis Bowdler for their partnership in this study and their outstanding work to protect the future of Hispanic homeownership in this nation. This project has far exceeded our expectations and we look forward to conducting future joint studies that lead to solutions that guarantee sustainable homeownership for Hispanics in America.

Respectfully,

Felix DeHerrera
Chairman, NAHREP

Timothy Sandos
President & CEO, NAHREP



Felix DeHerrera
Timothy Sandos



Janet Murguía

As an organization dedicated to creating opportunities and opening the door to the American dream to the nation's 44 million Latinos, the **National Council of La Raza (NCLR)** has a deep interest in ensuring that Latino families have the chance to build wealth through homeownership. Homeownership is the key way for families to not only build wealth but also a safety net that can sustain them in times of financial emergency.

The current mortgage crisis is further evidence, though, of the flaws in the mortgage system. NCLR has long warned that, as a result, Latino borrowers are left vulnerable to unethical lending practices. That is why we are proud to partner with the National Association of Hispanic Real Estate Professionals (NAHREP) to release *Saving Homes, Saving Communities: Latino Brokers Speak Out on Hispanic Homeownership*. Predatory lending threatens the significant gains in homeownership our community has made over the last decade. Too many of our families have been ignored by some lenders and shuffled into expensive loans by others – even when they had good credit. Now, the market is contracting and foreclosure rates are at an all-time high.

Nonetheless, we are encouraged by the findings of *Saving Homes, Saving Communities: Latino Brokers Speak Out on Hispanic Homeownership*, the first report of its kind to give voice to practicing mortgage professionals – 56 of whom were interviewed – across the country who share this vision and seek to improve the marketplace for all borrowers. The report reveals new information about those serving the mortgage needs of Latinos. Participants discussed the role of mortgage brokers in Latino communities, causes of predatory lending, and best practices that could improve lending to vulnerable Latino families. Many of the brokers interviewed in this report expressed frustration that others in their industry have taken advantage of families' trust by steering them to high-cost loans that are profitable for the broker but risky for the borrower. Most saw it happen in their own backyards. But this report also makes clear how committed these brokers are to helping families achieve their dream and to enacting and promoting fair, equitable and ethical lending practices within their own communities. Based on their feedback, the report calls for:

- Enacting higher licensing standards and broadened enforcement strategies for brokers;
- Establishing a code of professional responsibility for all originators and best practices that set the borrower up for success;
- Creating and promoting wider availability of flexible and affordable home loan products;
- Strengthening partnerships between mortgage brokers and community-based organizations.

The goal of this report is to contribute to the national dialogue on how to eliminate predatory lending from the credit market. We invite others to join our pursuit of public policy, industry and community solutions that expand the credit available to Latino families while protecting them from unethical, discriminatory and illegal lending practices.

Sincerely,

Janet Murguía
President and CEO, NCLR

Executive Summary

As one of the fastest growing segments of the U.S. population, Hispanics are entering the homeownership market in record numbers. In 2007, Latino homeownership rates hit an all-time high of 50 percent, though the homeownership gap between Hispanics and non-Hispanic Whites is still 25 percentage points.¹ Like most Americans, homeownership for Latinos represents an opportunity to build wealth and move into the ranks of the middle class. Each year, mortgage brokers handle more than two-thirds of the nation's home purchases and refinances. In fact, many Latino families unfamiliar with homeownership turn to bilingual and bicultural brokers for help while navigating the process. Unfortunately, some families have fallen prey to unscrupulous brokers through this origination channel.

In response to reports of predatory lending, the National Association of Hispanic Real Estate Professionals (NAHREP) and the National Council of La Raza (NCLR) partnered to hear the perspective of seasoned mortgage professionals on how best to serve the mortgage needs of Latino homebuyers and owners. We held roundtable discussions in six cities with a high concentration of Hispanic homeowners. Fifty six mortgage professionals with experience serving the Latino community participated, with experience levels ranging from five to more than 30 years in the lending business.

Each roundtable discussed the challenges to sustainable homeownership that Latinos face, as well as the best and worst mortgage lending practices in the industry to serve this constituency. Consensus viewpoints from across all markets were compiled and cited in the report as findings. These findings were broken into two categories: factors that contribute to the problem of abusive lending and best practices in serving Latino home loan borrowers.

Contributing Factors

- **Licensing and certifying standards for mortgage brokers are not rigorous enough.** Participants agreed that loose licensing standards coupled with weak enforcement contribute to poor lending practices.
- **Few flexible products are available.** Professionals interviewed agreed that there are not enough home loan products that meet the unique needs of the Latino community.
- **External factors affect the borrower's product choices.** Respondents pointed to compensation structures and secondary market decisions that impact the products available in the homeownership market.

Best Practices

- **Conduct a basic financial assessment.** Participants should perform due diligence to determine the financial goals of their clients before recommending a mortgage product.
- **Make loans that maximize the borrower's long-term sustainability.** Responding professionals cited conventional and conforming loan products as the clear preference for homeowners, when possible.
- **Meet the needs of borrowers.** The roundtables agreed that mortgage brokers have a duty to serve the borrower with high standards of professionalism and ethics.
- **Keep up with the market.** Participants considered it part of their professional responsibility to continue their education and research new loan products that may be of interest to their clients.

Based on the findings, the authors offer recommendations for industry stakeholders and policymakers.

Industry Stakeholders

- **Ensure affordable loans are competitive.** All lenders, especially those in the prime market, must do a better job of making their affordable products accessible to brokers and borrowers.
- **Set the borrower up for success.** Originators must make loans that the borrower can afford to repay through the early years of the loan.
- **Partner with community-based organizations.** Originators should identify reputable homeownership counseling providers with whom they can partner to educate borrowers who are not ready for homeownership.

For Policymakers

- **Strengthen licensing standards and enforcement activity.** Policymakers must create a national, centralized system to set minimum federal and state guidelines to be implemented by regulatory agencies.
- **Institute a duty of care for all mortgage originators.** Policymakers should create an ethical standard for all originators that outlines fair and responsible service to borrowers.
- **Expand incentives to create affordable mortgage products.** Market-based incentives are needed to drive the creation of new flexible and responsible home loan products.

Introduction

Hispanic² households are playing an increasingly important role in the national economy. The 44 million Hispanic Americans living in the United States³ have an estimated purchasing power of \$798 billion,⁴ projected to increase to \$1 trillion by 2010.⁵

Rising homeownership rates is one area where Hispanics families have demonstrated their economic strength. Homeownership among Hispanic households currently stands at 50 percent compared to 47.1 percent for African-Americans.⁶ This represents a nearly 10 percentage point increase since 1987. Additionally, the number of Hispanic households is projected to grow to approximately 17 percent of the total U.S. population by 2020, adding approximately 7.5 million households.⁷ As the new generation of U.S.-born Hispanics grows older and achieves higher levels of education and income than their parents, it is reasonable to assume that the number of Hispanic households and homeowners will continue to increase at a steady pace.

While the research and data available paint an encouraging picture of rising homeownership rates and increased buying power, other factors reveal significant barriers to larger numbers of Latino families becoming homeowners. Families living in metropolitan areas are subject to a higher-cost housing market. Census data shows that 53 percent of Hispanic households live in one of the 30 largest metro areas in the country.⁸ In many of these cities, particularly in the West and Northeast regions of the country, there is a lack of affordable housing inventory. Another challenge for Hispanic families is the historically limited access to accurate and reliable information about the homebuying process and mortgage finance markets. Many first-time Latino homebuyers are also first-generation buyers. Finally, Latino families face a number of structural barriers in accessing the mortgage market. Unique borrower profiles common among Latino families, such as “thin” credit files, multiple wage-earners or sources of income, and cash income, present challenges to a market dominated by automated underwriting systems.

Despite the significant gains in the rate of Hispanic homeownership, the homeownership gap between Hispanics and non-Hispanic Whites is still 25 percentage points (75.4 percent).⁹ Additionally, Hispanic borrowers are overrepresented in the subprime mortgage market. Based on the barriers described above, many Latino homeowners may have received a subprime mortgage even though they could have qualified for prime credit. As a result, they are wasting hard-earned income on fees and interest, instead of building wealth through payments on the principal portion of their loan. Recent spikes in foreclosure rates in the subprime market raise serious concerns about the financial well-being of the Latino community. Homeownership represents approximately two-thirds of Hispanic families’ net worth, therefore, the loss of a home means the erosion of most of the family’s financial assets.¹⁰

In May 2005, NCLR released *Jeopardizing Hispanic Homeownership: Predatory Practices in the Homebuying Market*, which outlined the major challenges Hispanic families face while trying to access home loans. The brief concluded that many barriers contribute to the disproportionate representation of Latinos in the subprime market and with abusive home loans relative to the prime market, the consequences include a loss in family net worth, access to fewer post-purchase services, and, in some cases, foreclosure. Among the number of abusive tactics and practices targeting the Latino community, concerns were raised regarding the manner in which borrowers are connected to certain mortgage products. Mortgage brokers play an important role in this respect. Approximately two-thirds of the nation's mortgages are originated through brokers, who are well-positioned to serve Hispanic families disconnected from the financial mainstream. However, numerous reports have surfaced of egregious abuses through this origination channel.

NCLR and NAHREP partnered to interview practicing mortgage professionals in an effort to better understand the role of mortgage brokers in the Latino community. This report highlights the major findings of these discussions, and seeks to shed light on what public policy and best practices can be implemented to better serve Hispanic homebuyers and owners. We conclude with a set of recommendations for policymakers and industry professionals.



Methodology

In May and June 2007, NCLR and NAHREP hosted roundtable discussions in six key U.S. markets that brought together practicing mortgage professionals with expertise in mortgage brokering in the Latino community. To examine the role of mortgage brokers serving the Latino housing market, discussion leaders used a background document prepared by NCLR with proposed questions to guide the discussion. (The background document and guiding questions can be found in the Appendix.) The group discussions focused on the current challenges to sustainable homeownership for Latinos, lending practices and potential responses to predatory lending. The goal was not to define predatory lending, but to determine if there was a common understanding of some of the causes of predatory lending and positive responses to combat it.

NCLR Senior Housing Policy Analyst Janis Bowdler and local NAHREP chapter presidents or board members led the roundtables. Participants in the roundtable discussions were identified by NAHREP as leaders in their field, with a significant portfolio of transactions performed on behalf of Hispanic borrowers and with deep connections and relationships with practitioners that service the Hispanic community. Each roundtable included representatives from various professions involved in the closing of a home loan, including mortgage brokers, direct and wholesale lenders, closing agents and real estate agents. Responding to the background document, participants described practices, concerns and solutions based on their experiences in their respective markets. All conversations were recorded and transcribed, and findings were verified with discussion leaders within each group. Each roundtable discussion lasted approximately two hours.

MARKET	NAHREP LEAD	DATE	ATTENDEES (APPROX.)
Chicago, IL	Alex Chaparro	May 1, 2007	15
Miami, FL	Tino Diaz	June 1, 2007	10
Los Angeles, CA	Yamila Ayad	June 18, 2007	10
San José, CA	Rebecca Gallardo-Serrano	June 19, 2007	6
Dallas-Fort Worth, TX	Alex Cecenas	June 25, 2007	7
Houston, TX	Olga Garza	June 26, 2007	8

Market Profiles

The roundtables were held in six markets with a high percentage of Hispanic homeownership and large Hispanic populations. In fact, four of the six markets are among the top 10 U.S. cities with the largest Hispanic populations, according to the Census Bureau.¹¹ All participants conducted business throughout the Metropolitan Statistical Area (MSA); some also practiced regionally or across state lines.¹²

- **Chicago, Illinois (15 participants, ranging from 2 to 18 years experience).** With more than 1.7 million Hispanic residents, the Chicago-Naperville-Joliet is the midwest MSA with the largest Hispanic population. Between 2004 and 2005, Hispanic home loan applications in the Chicago area increased by 11 percent to nearly 26,000.¹³
- **Miami, Florida (10 participants averaging 18 years experience).** More than 2 million Hispanics live in the Miami-Fort Lauderdale-Miami Beach MSA. In 2005, nearly 46,000 Hispanic home loan applications were processed in the Miami area, an increase of 17.5 percent over the previous year.
- **Los Angeles, California (10 participants, averaging 10 to 15 years experience).** More than 5.5 million Hispanics live in the Los Angeles-Long Beach-Santa Ana MSA making it the area with the highest Hispanic population in the United States. Nearly 43,000 Hispanic home loan applications were processed in the L.A. area in 2005, for an increase of 11 percent over 2004 figures.
- **San José, California (6 participants, averaging 8 to 12 years experience).** The San José area in Santa Clara County is an emerging market for Hispanic homeownership. There are more than 446,660 Hispanics in the San José-Sunnyvale-Santa Clara MSA. Reaching nearly 7,000, the number of Hispanic home loan applications in this area is substantially lower than in cities such as Miami and Los Angeles. Nonetheless, the 18 percent increase registered between 2004 and 2005 demonstrates the impact of Hispanic homeownership in this market.
- **Dallas-Forth Worth, Texas (7 participants, averaging 6 to 8 years experience).** This market has the second largest population of Hispanics in Texas, with nearly 1.5 million Hispanics in the Dallas-Fort Worth-Arlington MSA. Between 2004 and 2005, home loan applications by Hispanics in this area increased by nearly seven percent to close to 13,000, the highest growth registered among race and ethnic groups in the area.
- **Houston, Texas (8 participants with an average of 8 years of experience).** More than 1.6 million Hispanics live in the Houston-Sugar Land-Baytown MSA, the largest of any area in Texas. Nearly 25,000 Hispanics applied for new home loan applications in the Houston market in 2005, a 13 percent jump over 2004.

Findings

As described in previous sections, Latino homebuyers and homeowners face a number of challenges in the mortgage market. Undoubtedly, they will be one of the hardest hit communities as foreclosure rates continue to increase. In this section we review the consensus viewpoints of participants in the six mortgage broker roundtables. Findings are based on majority consent of a viewpoint considered during a roundtable. Seven major findings were aggregated and could be divided into two distinct categories: factors that contributed to Latinos receiving bad loans and best practices by mortgage brokers serving Latino clients.

Contributing Factors

Participants were asked to describe the issue of predatory lending facing Latino borrowers and comment on factors that contributed to, or enabled, mortgage lending abuse. However, as stated in the Methodology section, the roundtables did not focus on a perfect definition of predatory lending. All participants agreed that predatory lending existed in their community, that Latino families were particularly vulnerable to such practices, and that they had seen loan documents and actual cases of lending abuse. Three major findings emerged from the discussion, which are listed below.

- **Licensing and certifying standards for mortgage brokers are not rigorous enough.** While the regulatory structure varies by state, participants agreed that loose licensing standards and education requirements contribute to poor lending practices. They asserted that entry-level mortgage brokers require more advanced training and rigorous testing than current standards require before they can offer sound advice regarding the financial decisions of their clients; intermediate- and advanced-level practitioners can benefit from continuing education requirements. Participants saw the mortgage market as dynamic, with products always changing. They felt it critical that all practitioners have a working knowledge of the variety of products available to their clients, as well as evolving best practices used to serve new communities. All participants cited ethics courses as important and thought it could be better covered in their certifying process. Moreover, many were concerned that loose licensing standards are often coupled with weak enforcement. State agencies were often seen as too understaffed to monitor a prolific broker community. Participants expressed frustration with their own inability to report fraud or unethical behavior.
- **Few flexible mortgage products are available.** As previously described, many Latino families have unique borrower profiles that require flexible loan features such as nontraditional credit, use of the Individual Tax Identification Number (ITIN) and multiple sources of income and/or co-applicants. Participants reported that there are relatively few products available that accommodate the needs of the Latino community. Where available, respondents reported that access was



either restricted (in the case of a retail lender's portfolio product) or too complicated to work with. One example given was that many products that target such borrowers still require some element of manual underwriting. Where efficiency and speed are major business considerations, such products become unattractive to both broker and borrower.

- **External factors affect the borrower's product choices.** Compensation structures¹⁴ and secondary market decisions were cited as factors that influence the loan products mortgage brokers share with their clients. In the case of compensation structures, participants reported that they are not compensated equally for "affordable" products. These products include Community Reinvestment Act (CRA)-inspired¹⁵ and goals-rich conforming products.¹⁶ Respondents felt that compensation for these products was low despite the fact that they require more work than general conventional or automated products. In addition, several participants raised concerns about the manner in which lenders and secondary market stakeholders raise or lower compensation rates to drive business toward certain products perceived to earn a high rate of return for investors.¹⁷ Meanwhile, those same stakeholders limit the availability of other products they would fund or buy, presumably those perceived to earn a lower rate of return. Others pointed out that at the same time pressure to deliver prescribed loan products increased, and loans insured by the Federal Housing Administration (FHA) began to decline in relevance. In Texas, brokers complained the program was too burdensome and not accessible. In California, respondents stated that FHA's loan limits made the product difficult to use.

Best Practices

Participants also pointed to a number of steps they take to avoid matching a borrower with a loan that will be problematic for them in the long run. Four major best practices were identified, each successfully employed by the majority of professionals that attended the roundtables. Participants reported that they considered these activities essential to serving Latino families well, but expressed frustration that they were not universally practiced.

- **Conduct a basic financial assessment.** Participants agreed that borrowers seek them out based on their expertise and ability to offer advice on which loan program was the best fit for them. In order to provide reasonable advice on the consumer's mortgage choices, the mortgage professionals that attended the roundtables conduct a basic financial assessment to determine their client's financial goals and capacity to take on a home loan. This practice was considered especially important for serving Latinos and first-time homebuyers. Common criteria used to determine what types of loans make sense for their client include the borrower's credit and payment histories, income, length of time he or she intended to stay in the home, cash reserves, debt and ability to repay the loan. In addition, most agreed that not conducting some such analysis or due diligence was irresponsible and negligent.
- **Make loans that maximize long-term sustainability and that the borrower can afford to repay.** Participants agreed that generally speaking, conventional and conforming loan products are preferable for homeowners, especially first-time homebuyers. Investors, second home purchasers and affluent borrowers may have different financial needs. Originators at the roundtables reported that they attempt to qualify their clients for conventional and conforming products first, and only move to other products once these options have been exhausted. All originators stated that they include taxes and insurance as a part of their calculations on borrower affordability, and most agreed that escrow accounts were important for cash-poor borrowers. Participants stated that their objective was to maximize the borrower's ability to be financially sustainable in his or her mortgage over the long-term. Most participants cited incidents where applying this end goal as a test resulted in a loss of business, but believed that making a loan to the borrower that they considered irresponsible would have been unethical.
- **Meet the needs of the borrower.** Roundtable participants agreed that many immigrant families, first-time homebuyers and others unfamiliar with homebuying rely on the expert advice of their mortgage professional to help them navigate the purchase and refinance loan markets. In fact, many reported that the majority of their business is based on referral, and that borrowers seek them out because of their expertise. When trying to find new customers, participants reported advertising to the community based on their expertise, experience and, at times, bilingualism. Consequently, participants

agreed that brokers have a professional and ethical duty to the borrower, must conduct themselves in a professional and responsible manner, and be held to high standards of accountability. In addition, several participants pointed to their clients' lack of information about the homebuying process. Some reported that they counsel their clients themselves. Others, however, had partnerships with community-based organizations that conduct homeownership counseling and education. While the number was relatively small, those that had relationships with community organizations found them to be helpful in educating their clients on the homebuying process or getting the word out about predatory lending.

- **Keep up with the market.** The mortgage market continues to evolve in such a manner that a responsible originator must make a concerted effort to keep abreast of market trends and new loan products. Participants considered it part of their professional responsibilities to continue educating themselves and researching new loan products on the market. Inadequate education of new mortgage brokers and lack of awareness about various “affordable” products were cited as negative factors that contribute to Latino borrowers being placed in loan products that are not the best fit for their financial goals. In each roundtable, participants complained that many new originators recruited into the mortgage broker business are exposed to a limited number of products. They are therefore lacking the information and training necessary to serve a full range of clientele.

Recommendations

Many mortgage brokers want to elevate the standards of their profession. Several roundtable participants expressed frustration at the poor reputation originators held as the result of unscrupulous parties that have been allowed to continue preying on Latinos and other underserved and vulnerable communities. Fortunately, mortgage industry stakeholders and policymakers can help create a fair and efficient marketplace for vulnerable borrowers.

Industry Stakeholders

- **Ensure affordable loan products are competitive.** All lenders, especially those in the prime market, must do a better job of making their affordable products accessible to brokers and borrowers. Loans targeting low- and moderate-income families, first-time homebuyers, and other underserved groups should be developed in such a way that an originator is equally compensated and the borrower is able to close in a reasonable amount of time. Government-Sponsored Enterprises (GSEs), government and nonprofit lenders must streamline their down-payment programs and other targeted lending initiatives to make them as practical and relevant to the mainstream mortgage market as possible. Affordable products become irrelevant in the marketplace if they are not efficient and cost effective for lenders to use and customers to access.
- **Set the borrower up for success.** Originators must make loans that the borrower can afford to repay through the early years of the loan. Best practices outlined in the Findings section should be incorporated as professional standards. All borrowers should be able to expect a basic financial analysis as part of the service from their originator, which includes a determination of the borrower's ability to repay the chosen loan product. For clients that are borrowing against their primary residence, whether purchase or refinance, originators should first try to qualify families for conforming, conventional or affordable home loans. If the family does not qualify, then the originator can explore other loans for which the borrower may qualify. Originators must also include taxes and insurance in their affordability calculations and should make escrow accounts standard for loan packages where the Combined Loan-to-Value (CLTV) exceeds 80 percent.
- **Partner with community-based organizations.** Many participants reported that borrowers were insufficiently informed regarding their mortgage and closing process. Unfortunately, few had solid relationships with community-based homeownership counseling providers that could assist in the financial education of their clients. As noted in the findings, however, those that had relationships with community-based organizations reported the positive benefits and business pay-offs they experienced. We urge originators to identify reputable homeownership counseling providers they can rely on to educate their borrowers that are not ready for homeownership. We also recommend that industry leaders become active in local taskforces, regulatory and enforcement efforts and education campaigns to broaden public awareness of predatory lending.

Policymakers

- **Strengthen licensing standards and enforcement activity.** To support the efforts of regulators to protect borrowers from unethical originators, policymakers must create a national, centralized system to set minimum federal and state regulatory guidelines for state regulatory agencies to implement. A national agency could create efficiencies for regulators and originators. For example, originators could more easily apply for licenses across states, and a database could be established to more easily track originators whose licenses have been revoked. Even with additional support from a national framework, state agencies may still be overwhelmed. Therefore, we also encourage the creation of state and regional peer review organizations that would support and supplement the efforts of the state regulatory agencies. Finally, the oversight system must have the capacity to receive consumer and practitioner complaints and tips on illegal, abusive, or fraudulent behaviors and activities.
- **Institute a professional and legal duty of care for all mortgage originators.** Participants overwhelmingly responded that they consider the borrower their primary client and interest, and that they guarantee, at the minimum, a certain amount of due diligence that provides customers with sound advice regarding the mortgage transaction. Participants reported their frustration with the lack of regulatory and ethical parity across the market. In response, the authors recommend policymakers require all originators to abide by a clear ethical standard. This ethical standard must include the ability to demonstrate a net tangible benefit and a borrower's ability to repay a loan, appropriateness of the chosen mortgage to a borrower's financial situation and transparency in the closing transaction.
- **Expand incentives to create and promote affordable home loans.** It is clear from reports of the participants that access to flexible and affordable mortgage products improves their ability to serve Latino families and supports efforts to build wealth in Latino communities. However, few incentives exist for companies to invest in product development that benefits first-time homebuyers, immigrants or other underserved communities, since these products are not considered highly profitable.¹⁸ With the majority of home loans (more than 70 percent) being made by institutions that are not covered by the residential lending requirements of CRA, new market stimulants are needed to drive product development and innovation. This will create a level playing field for all lenders, while at the same time supplying the market with more innovative and affordable loan products.

Tips for Consumers

- **Get the facts before you shop.** Where possible, first-time homebuyers should attend a seminar or visit a nonprofit professional that can offer personalized advice on how to prepare for ownership. To find an agency near you, call the Department of Housing and Urban Development at (800) 569-4287 or visit www.hud.gov. At the same Web site, borrowers can find mortgage glossaries, affordability calculators and other tools that explain the homebuying process.
- **Stay within your price range.** Know what home prices you can afford and stick to that price range; do not let others talk you into a home you cannot afford. Setting a limit for the price of a home will save you money and time and help you avoid foreclosure. When comparing finance offers, be sure to check what is included in the quoted monthly payment. Payments that do not include principal payments, homeowner's insurance, or property taxes often appear attractive, but are artificially low and may cause problems down the road.
- **Ask questions and compare answers.** Borrowers should be prepared to ask their originator and real estate agent questions regarding the best loan product available to them, what sales price they can actually afford, commission rates, what services are included in the commission and what assistance may be available to them. Borrowers should shop around and compare the responses until they find the agents that offer the best deal in line with their needs.
- **Get a home inspection.** Many of the most costly home repairs, such as a leaky roof or basement, may not be plainly visible. Borrowers need to hire an independent, licensed home inspector to check for structural problems. An offer to buy a home should always be contingent on getting a home inspection.
- **Report abusive loans.** Borrowers should be on the look out for agents that encourage them to sign blank documents, report income they do not have, rush them to the closing table before they are ready, or otherwise seem suspicious. Do not be pressured into signing documents you do not understand. If your lender or broker appears to have violated a law or his or her ethical responsibilities, you should report it immediately to the proper authorities and seek legal advice. To find the agency in your state responsible for handling consumer complaints, visit www.consumeraction.gov/state.shtml. You can always contact the state attorney general's office as well. Other resources can be found at Federal Trade Commission (FTC) Web site, www.ftc.gov.

Conclusion



In the wake of rising foreclosure rates and market adjustments, serious concerns are raised about the products and practices that brought the market to this point. Although the homeownership rate has increased for most communities in recent years, especially for Latinos, the fate of millions of recent borrowers remains unclear. Now more than ever, consumers must be able to approach the mortgage market with confidence that their mortgage professionals will serve them equitably and to the best of their abilities. It will require action on behalf of industry stakeholders, regulators and policymakers to create that kind of environment. Through the course of the six roundtables, the authors repeatedly heard that mortgage professionals are looking for ways to better serve their clients and that they value the support of other stakeholders, including enforcement agencies. It is our goal to share the dialogues started at the roundtables to help further national, state and industry efforts to eliminate predatory practices from the consumer credit markets.

Appendix

Connecting Latinos to Sustainable Homeownership Opportunities

Hosted by

National Council of La Raza

National Association of Hispanic Real Estate Professionals

LOCAL NAHREP BRANCH

The National Council of La Raza (NCLR), the National Association of Hispanic Real Estate Professionals (NAHREP), and LOCAL NAHREP BRANCH invite you to participate in a national dialogue on sustainable Latino homeownership. NCLR and NAHREP are hosting six roundtables throughout the country to bring together mortgage brokers identified as leaders in their field to discuss the current market challenges to sustainable Latino homeownership.

Goals

- Discuss the importance of Latino homeownership and establish a shared mission for promoting sustainable homeownership.
- Identify and agree on predatory practices or behaviors that are problematic.
- Determine what market incentives, best practices, or policies are necessary to ensure that mortgage brokers connect Latino borrowers to mortgages that meet their needs.
- Explore ways in which mortgage brokers and homeownership counselors can collaborate to promote accessible and affordable homeownership.
- Craft public policy and best practice recommendations.

Background

Latino families are entering the mortgage market in record numbers. Their unique characteristics and mortgage needs are a powerful force reshaping the mortgage industry and pushing product innovation. In some cases, however, the unique needs of the community are also leaving Latino families vulnerable to abusive lending practices. In May 2005, the National Council of La Raza (NCLR) released *Jeopardizing Hispanic Homeownership: Predatory Practices in the Homebuying Market*, which outlined the major challenges Hispanic families face while trying to access home loans. The issue brief concluded that many barriers contribute to the disproportionate representation of Latinos in the subprime market and with abusive home loans relative to the prime market, the consequences of which include a loss in family net worth, access to fewer post-purchase services, and, in some cases, foreclosure.

For the last decade, the NCLR Homeownership Network (NHN) has provided independent homeownership counseling and served as a conduit to affordable home loans for Latino borrowers. NHN counselors have helped more than 25,000 families become first-time homeowners. Through this experience we have gained a rich understanding of the needs of Latino and immigrant homebuyers. We work with families over several months to prepare them for homeownership, and we also help families in danger of losing their home, some of whom have been victims of abusive lending.

During the course of its research for *Jeopardizing Hispanic Homeownership*, NCLR became concerned about how Latinos access mortgage products. Mortgage brokers play an important role in this respect. As intermediaries between consumers and the array of mortgage products offered by financial institutions, mortgage brokers have become gatekeepers of information and mortgage opportunities for many Latinos. Approximately two-thirds of the nation's mortgages are originated through brokers who are positioned deep within targeted markets that are of interest to mortgage providers but which are too difficult or expensive to be reached. Financial institutions rely on brokers to connect them to qualified borrowers. Borrowers rely on brokers to deliver competitive mortgage options.

Recent public policy debates have centered on the role of the mortgage broker. On one hand, mortgage brokers serve as the main channel through which Latinos, immigrants, language minorities, and many other underserved communities access home financing. Without the one-on-one style of the broker, many of these families may not have the confidence or tools necessary to purchase their first home. On the other hand, the level of confidence the borrower entrusts to a broker demands a certain level of responsibility and professionalism from the mortgage broker. Many of the most egregious acts of predatory lending have happened at the hands of mortgage brokers who violated the trust that borrowers placed in them. In fact, many borrowers do not have the tools to critically evaluate their mortgage offers; they rely heavily on their broker for advice and guidance. A system with checks and balances must be created to level the playing field for borrowers and brokers.

General Questions to Consider

- On average, are mortgage brokers serving Latino families well?
- What are mortgage brokers doing to promote responsible and affordable homeownership?
- What bad practices exist in the mortgage broker industry? Are there mechanisms in place to address these bad practices?
- What does the mortgage broker industry need to elevate the profession and ensure that best practices are pervasive throughout the industry?

Borrower-Broker Relationship

Latino borrowers rely on mortgage brokers as one of their main conduits to mainstream mortgage financing. Not only do borrowers expect that the broker will deliver an acceptable mortgage deal, oftentimes they also rely on them to understand their unique borrower profiles. Thin credit files and multiple sources of income or wage-earners in one household are two examples of characteristics that lead many retail lenders to overlook Latino families. In addition, a cultural connection also generates a bond or expectation of trust. Many bicultural agents capitalize on this by advertising themselves as “trusted advisors” within their community. On one hand, that puts mortgage brokers in the perfect position to bridge the gap between Latino borrowers and homeownership opportunities. On the other hand, this puts the borrower in a vulnerable position where bad actors are quick to strike. In a similar roundtable with NCLR housing counselors, participants reported a need for improved relationships with brokers, but that their worst cases of predatory lending were carried out by mortgage brokers.

Key Questions

- What responsibilities or obligations do mortgage brokers have to borrowers? Should a borrower expect the broker to exercise a reasonable amount of care to find the best loan terms possible?
- How many loan options are typically presented to a client? Does the borrower have the tools necessary to evaluate options?
- What role does marketing and advertising play in shaping a borrower’s expectations of the broker? What examples of good and bad practices can you think of?
- How are Latinos recruited to the mortgage broker industry?

Broker-Lender Relationship

In addition to serving the borrowers, mortgage brokers also have contractual relationships with the wholesale lenders. These relationships can take a variety of shapes and compensation structures, but are equally important to a broker's ability to run its business. Thus, a mortgage broker's product offerings are limited to those offered by the wholesale lenders with which it does business. The type and variety of relationships an individual broker or firm holds, therefore, can have significant impact on the options available to its clients.

Key Questions

- What are the various contract relationships between lenders and mortgage brokers? How does the compensation structure differ between these relationships?
- How do brokers connect to lenders? How do they learn about new products offered in the marketplace?
- What role does compensation play in product options shared with a borrower?
- What incentive exists for brokers to promote products that do not earn high commissions, but which are better for the customer?
- How do brokers serve clients for which they do not have a fitting loan product?

Product Innovation and Exposure

Lenders, state housing finance authorities, and secondary market players such as Fannie Mae and Freddie Mac have developed several lines of affordable mortgage products. However, not all of these products successfully reach the targeted community. Anecdotal evidence suggests that these products are rarely marketed ahead of more profitable and easier-to-process loans. Yet, oftentimes, such loans work well for borrowers of modest means.

Key Questions

- How can lenders and those that develop affordable mortgage loans guarantee that their products reach the Latino community?
- What is the role and responsibility of mortgage brokers to offer such products? What are the barriers to their full participation in the delivery of affordable products?
- Given the complicated journey of a loan product from development to delivery, how can consumers find all affordable options possibly available to them?
- How can mortgage products influence mortgage product development?

Public Policy Responses

In a wave of publicity surrounding rising foreclosure rates, Congress is actively debating public policy responses to abusive lending and the potential loss of wealth facing minority communities. Latinos, having been overrepresented in the subprime market and targeted for risky loan products, stand to be hit hard by an increase in foreclosure rates. Homeownership represents approximately 70% of Latino families' net worth. Losing their home could mean losing their secure retirement or their ability to send their children to college. Even so, not everyone agrees that a federal policy response is necessary.

For those who do see a need for a public policy solution, there are multiple approaches being discussed with regards to mortgage brokers. Some suggest that enough regulation exists; the problem lies in the lack of vigorous enforcement. Uniform licensing and education standards, coupled with background checks and a national registry, have also been suggested. Finally, and perhaps most controversial, is an idea of a duty applied to brokers along with some standards of what must be evaluated in a mortgage application and approval decision.

Key Questions

- How much of the predatory behavior that exists in the market is due to a lack of education on behalf of the mortgage broker?
- What elements of the borrower profile should a broker take into consideration before offering its customer a loan?
- Should the broker be obligated to work on behalf of either the lender or the borrower?
- What kind of liability should a mortgage broker have if it violates its responsibilities to the borrower or the lender?
- What abusive practices should be banned?
- What tools or systems need to be in place to facilitate better relationships between HUD-certified housing counselors and mortgage brokers?

About the Authors:

Timothy Sandos, National Association of Hispanic Real Estate Professionals

The National Association of Hispanic Real Estate Professionals (NAHREP) was established in September 1999 with the mission of increasing the sustainable Hispanic homeownership rate by empowering the real estate professionals that serve the community. Eight years later, NAHREP is a non-profit trade association of approximately 15,000 members in 48 states and 56 affiliate chapters. NAHREP members are real estate agents, brokers, loan officers, mortgage brokers, title officers, escrow officers, appraisers, and insurance agents from diverse cultural backgrounds. Timothy Sandos is President and CEO for NAHREP. Prior to this, Mr. Sandos was Executive Vice President & Managing Director of Emerging Markets for Citi Mortgage, Inc., where he was responsible for the growth and retention of residential mortgage services into Emerging Market segments across the U.S. He served in a similar capacity with Principal Residential Mortgage.

The organization's driving force is the belief in equal access to homeownership for all Americans. Their intention, as trusted advisors, is to help more Hispanic families achieve the American dream by delivering knowledgeable, ethical, culturally sensitive bilingual services to the community.

Janis Bowdler, National Council of La Raza

The National Council of La Raza (NCLR) – the largest national Hispanic civil rights and advocacy organization in the United States – works to improve opportunities for Hispanic Americans. Through its network of nearly 300 affiliated community-based organizations (CBOs), NCLR reaches millions of Hispanics each year in 41 states, Puerto Rico, and the District of Columbia. To achieve its mission, NCLR conducts applied research, policy analysis, and advocacy, providing a Latino perspective in five key areas – assets/investments, civil rights/immigration, education, employment and economic status, and health. In addition, it provides capacity-building assistance to its Affiliates who work at the state and local level to advance opportunities for individuals and families. Janis Bowdler, Senior Housing Policy Analyst, works with the Latino Financial Services Project, which seeks to increase asset accumulation, wealth, and net worth for Latino families, and is responsible for coordinating research, policy analysis, legislative, and advocacy activities related to Latino homeownership.

Founded in 1968, NCLR is a private, nonprofit, nonpartisan, tax-exempt organization headquartered in Washington, DC. NCLR serves all Hispanic subgroups in all regions of the country and has operations in Atlanta, Chicago, Los Angeles, New York, Phoenix, Sacramento, San Antonio, and San Juan, Puerto Rico.

Endnotes

- ¹ Department of Housing and Urban Development, *U.S. Housing Market Conditions*, 2nd Quarter, 2007.
- ² The terms “Hispanic” and “Latino” are used interchangeably throughout this report and refer collectively to Mexicans, Puerto Ricans, Cubans, Central and South Americans, Dominicans, and others of Spanish and Latin American descent. Latinos may be of any race; therefore, unless denoted as “non-Hispanic,” persons of Hispanic origin may be included in both the “Black” and “White” racial categories. Data on Latinos do not include the 2.8 million residents of Puerto Rico.
- ³ Department of Commerce’s Census Bureau, Annual Estimates of the Population by Sex, Race, and Hispanic or Latino Origin for the United States: April 1, 2000 to July 1, 2006.
- ⁴ Selig Center for Economic Growth at the University of Georgia’s Terry College of Business, *The Multicultural Economy*, September 1, 2006.
- ⁵ HispanTelligence, *U.S. Hispanic Purchasing Power: 1978-2010*.
- ⁶ Department of Housing and Urban Development, *U.S. Housing Market Conditions*, 2nd Quarter, 2007.
- ⁷ Department of Housing and Urban Development, *Improving Homeownership Opportunities for Hispanic Families*, March 2006.
- ⁸ Department of Housing and Urban Development, *Improving Homeownership Opportunities for Hispanic Families*, March 2006.
- ⁹ Department of Housing and Urban Development, *U.S. Housing Market Conditions*, 2nd Quarter, 2007.
- ¹⁰ Pew Hispanic Center, *The Wealth of Hispanic Households: 1996 to 2002*, October 18, 2004.
- ¹¹ All population figures are based on 2005 American Community Survey data from the U.S. Census Bureau.
- ¹² A Metropolitan Statistical Area is a geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities having a high degree of economic and social integration with that core.
- ¹³ All home loan application figures are based on 2005 Home Mortgage Disclosure Act data from the Federal Reserve Board.
- ¹⁴ Participants in San Jose, California; Los Angeles, California; and Dallas, Texas were concerned, in particular, about unethical originators that would pack points on the front and back end in an effort to maximize their own profit while at the same time endangering the borrower.
- ¹⁵ The Community Reinvestment Act (CRA) was passed in 1977 to ensure that depository institutions were serving the communities where their branches were located, especially lower-income communities. For more information on CRA, visit www.ffiec.gov/cra/.
- ¹⁶ “Goals-rich” refers to loan products created by Fannie Mae and Freddie Mac to attract borrowers that satisfy their affordable lending goals. Fannie Mae and Freddie Mac are subject to affordable housing goals, set by HUD, in each of three categories: borrowers at or below Area Median Income (AMI), Very Low Income borrowers (below 60 percent of AMI) or low-income borrowers living in low-income census tracts, and borrowers living in low- or middle-income census tracts with high minority populations. Products created to serve these markets are often used as a baseline for comparing loan products described as “affordable,” meaning they target low- and moderate-income and underserved borrowers.
- ¹⁷ The roundtables were conducted in the wake of a significant shift in the subprime market. During 2005 and 2006, the secondary market heavily promoted certain types of loan products, namely “2/28,” negative amortization and stated-income loans. By early 2007, foreclosure rates were on the rise in the subprime market and several subprime lenders were forced to close. Participants in all roundtables agreed that many families received these loan products regardless of whether they were a good fit. However, several participants in Chicago, Illinois; San Jose, California; and Miami, Florida reported difficulty closing loans other than those favored by wholesale lenders and secondary market players throughout the early 2000s.
- ¹⁸ One example would be the residential lending requirements of CRA, which has leveraged billions of dollars in affordable home loans and inspired the creation of affordable mortgage products. For more information, see: *The 25th Anniversary of the Community Reinvestment Act: Access to Capital in an Evolving Financial Services System*. Cambridge, MA: Joint Center for Housing Studies, Harvard University, 2002.

A photograph of a house with a 'SOLD' sign in the foreground. The sign is white with a black border and the word 'SOLD' in large, bold, black letters. The house behind it has a white exterior and a window with four panes. The entire image is overlaid with a semi-transparent blue filter.

SOLD



NATIONAL ASSOCIATION OF HISPANIC REAL ESTATE PROFESSIONALS

NATIONAL COUNCIL OF LA RAZA