
Jeopardizing Hispanic Homeownership: Predatory Practices in the Homebuying Market

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- NCLR is the largest national constituency-based Hispanic organization, established to reduce poverty and discrimination and improve life opportunities for Hispanic Americans.

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- Predatory mortgage lending is a priority issue for Latinos and all American families.
 - The ability of the nation's largest minority to access the traditional avenue to wealth-building – homeownership – is important for all Americans.
 - Market failures prevent Latinos from becoming homeowners and leave many vulnerable to predatory lenders.

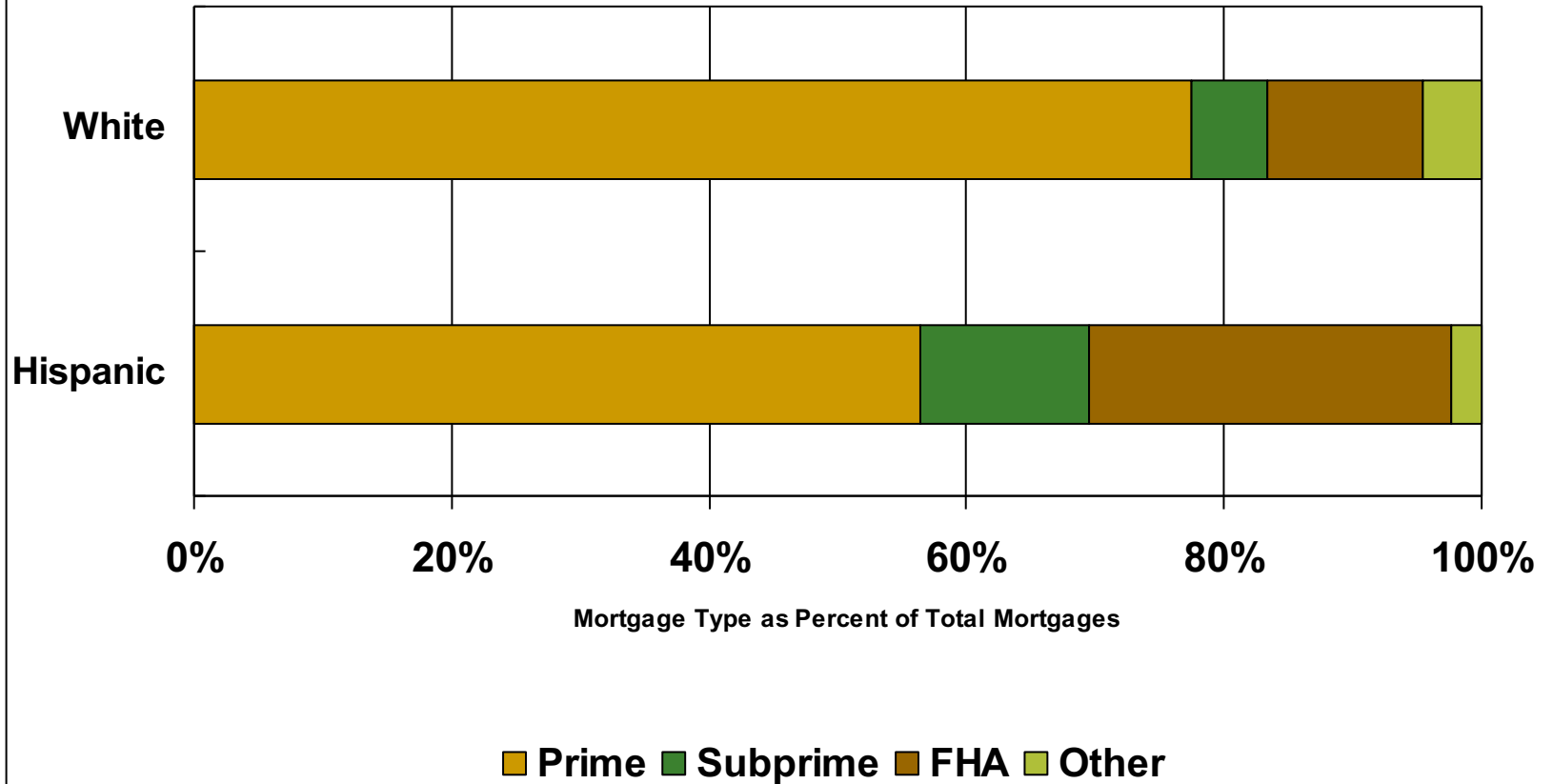
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- Overview of Hispanic Homeownership
 - Barriers to the Traditional Market
 - Predatory Mortgage Lending
 - Policy Implications
 - Recommendations

Overview of Hispanic Homeownership

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- Snapshot of Latino households in 2003:
 - Number of households increased 75%, 1993 – 2003.
 - Five states with largest Hispanic population growth 1990-2000: North Carolina (393%), Arkansas (337%), Georgia (300%), Tennessee (278%), Nevada (217%).
 - Latino households are more likely than White households to be in high-cost cities; two in five Latinos pay too much for housing.
 - In 2003, 48% of Latinos owned their own home, up from 42% in 1993.
 - However, Latino homeownership still trails that of Whites by 28 percentage points.
 - The lagging homeownership rate largely explains the nine to one White-Hispanic wealth gap.
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- Latinos are influencing the size and shape of the mortgage market.
 - In 2002, 185% more Latinos closed purchase mortgages than in 1993, compared to a 30% increase among White homebuyers.
 - Despite their growing participation in the mortgage market, Latinos are not accessing equitable mortgage products.
 - 40% of Hispanic borrowers used nonprime products compared to 18% of White borrowers.

Distribution of Mortgage Products by Type and Ethnicity, 2002



Barriers to the Traditional Market

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- Structural characteristics of the mortgage market hinder Hispanic families' access to the best priced financing.
 - **Commission-based policies:** Little incentive to serve low-income and other “hard-to-serve” families.
 - **Workforce diversity:** Financial institutions lack diversity throughout their organization.
 - Only eight of the 40 Fortune 1000 commercial banks had Hispanic board members; four had Hispanic executive staff.
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- ❑ **Credit scoring:** Many Latino families, as many as 40%, have “thin” or no credit file.
 - This is further complicated by Automated Underwriting systems that cannot process an application without a credit score.
- ❑ **Outreach:** Subprime lenders take in nearly twice the applications for Hispanics as they do Whites.
- ❑ **Information and Awareness:** Lack of information leads many Hispanic families to believe they cannot purchase a home or qualify for affordable financing.

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- Because of these barriers, many Hispanic families are vulnerable to unethical lending practices known as Predatory Mortgage Lending.

Predatory Mortgage Lending

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- What is Predatory Mortgage Lending?
 - Excessive interest rates
 - Excessive points and fees financed into the loan, at times without borrower awareness
 - Lending without regard to ability to repay
 - Other tactics designed to strip home equity from the borrower

 - Certain predatory products and tactics are common in Hispanic communities.

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- Legitimate products intended for niche clientele can be abused easily.
 - **Contract for Deed:** A rent-to-own arrangement where the borrower does not gain title until the loan is paid off; 12% of Latino homeowners have a Contract for Deed.
 - **Interest-only (IO) Loans:** A mortgage option where the borrower pays only interest without reducing principal. Many IO borrowers are Latino.

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- ❑ **Mobile and Manufactured Homes:** An affordable option for many rural and immigrant Latino families, though fraught with danger due to a lack of standardized financing. Nearly 10% of Latino homeowners own mobile/manufactured homes.
 - ❑ **Others:** Adjustable Rate Mortgages (ARMs), Stated Income Loans, and Balloon mortgages are other products that can be abused.

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- Many sales tactics can also be unethically applied.
 - **Push tactics:** Aggressive marketing to consumers who likely did not seek out the offered product.
 - **Independent Third-Party Brokers:** “Helpful” agents that become predatory if they exploit their cultural connection with vulnerable families.

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- ❑ **Mortgage Brokers:** Though many provide an important service, unethical brokers steer families toward expensive products to earn a higher profit.
 - ❑ **Steering:** There is ample evidence that Hispanic families are all too often steered toward expensive or inappropriate mortgage products.

Policy Implications

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- Two major bills competing in Congress
 - The Responsible Lending Act (H.R. 1295)
 - The Prohibit Predatory Lending Act (H.R. 1182)

 - Latino priorities for legislation
 - Curb steering
 - Improve access to affordable homeownership
 - Hold mortgage brokers accountable
 - Increase consumer protections
 - Enhance enforcement

Recommendations

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- **Increase consumer protections:** Congress must pass strong, comprehensive legislation that increases protections for all consumers.
 - **Stop Steering:** Reduce incentives to place consumers in a more expensive loan. Also, hold mortgage brokers accountable by increasing state and federal oversight and standardizing licensing requirements.

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- **Improve access to mainstream market:** Prime institutions must improve their performance with Hispanic borrowers. Also, support housing counseling.
 - **Provide a path to corrective action:** Consumer protections must come with meaningful enforcement provisions.

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- As the Latino community continues to grow, Latinos' ability to purchase a home and maintain that asset is important to all communities and the national economy.

NCLR Publications:

- *Jeopardizing Hispanic Homeownership: Predatory Practices in the Homebuying Market, 2005*
- *Hispanic Housing and Homeownership, 2004*
- *Increasing Hispanic Homeownership: Strategies for Programs and Public Policy, 2002*
- Available at www.nclr.org