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“Boom and Bust: Inequality, Homeownership, and the
Long-Term Impacts of the Hot Housing Market”

Submitted to

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Submitted by

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UnidosUS, previously known as NCLR (National Council of La Raza), is the nation's largest Hispanic* civil rights and advocacy organization. Through its unique combination of expert research, advocacy, programs, and an Affiliate Network of nearly 300 community-based organizations across the United States and Puerto Rico, UnidosUS simultaneously challenges the social, economic, and political barriers at the national and local levels.

Increasing homeownership for the Latino community is the single most powerful strategy for closing the racial and ethnic wealth gap, which currently sits at \$146,000 dollars between the median White and Hispanic household.¹ And Hispanic Americans are a growing and influential sector in the U.S. housing market. Indeed, they are the only demographic group projected to increase homeownership rates over the next 20 years.

Yet homeownership remains sadly out of reach for too many Latino families. To become a homeowner, Latinos must overcome barriers to homeownership readiness, including a restrictive credit environment; disproportionately low wages; address any medical, student or consumer debt; and a competitive and expensive housing market. They also must be able to afford to retain their home as economic conditions shift.

Latinos are often unable to purchase homes because of lending discrimination and high home prices. In 2017, more than 30% of Latino adults reported experiencing discrimination while searching for an apartment or buying a home,² and they are more than twice as likely as Whites to be denied—or fear being denied—a home loan.³ Furthermore, in 2018, Latinos reported that they experienced numerous obstacles to buying a home, including low credit scores, the inability to afford a down payment, and insufficient income for monthly payments.⁴ As a result of these and other factors, the Hispanic-White wealth gap has barely changed in the last several decades.

Although the COVID-19 pandemic is imposing high costs on Latino workers and their families, homeownership remains a cornerstone of their American dream. Despite the pandemic, an overwhelming desire to purchase a home resulted in historic levels of demand for homeownership in the U.S. Facing these strong economic headwinds, in 2020, Latinos were the only demographic to increase their homeownership rate for a sixth consecutive year.⁵

Most new homebuyers will be people of color, and a majority will be Latino. Latinos are the youngest and fastest-growing segment of the nation's population, and their access to economic opportunities will have a significant role in shaping the nation's economic future. Indeed, projections from the Urban Institute show that all future net homeownership growth will come from non-White households.

* The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout our materials 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. Our materials may also refer to this population as "Latinx" to represent the diversity of gender identities and expressions that are present in the community.

But the challenges they face are substantial. Compared to Whites, Latinos generally are younger and have lower levels of income and wealth, lower credit scores on average, and larger and multigenerational families.⁶ They are also more likely to be first-time homebuyers. Latinos account for nearly one third of first-time homebuyers in 2021—exceeding their share of the general population.⁷ The Urban institute predicts that “by 2040, more than 20 percent of young households will be Hispanic—triple the share in 1990”⁸ and that between 2020 and 2040, 70 percent of all new homeowners will be Latino.⁹

To deepen support for the Latino community, UnidosUS works with our network of community-based financial and housing counseling providers which helps to inform our understanding of Latinos’ homeownership challenges and opportunities. The UnidosUS Wealth and Housing Alliance (UWHA) (formerly the National Homeownership Network, or NHN) is the nation’s largest network of community-based organizations working to empower Latino wealth-building through homeownership.*

In addition to direct services and counseling, UnidosUS publishes reports, provides testimony, and advocates for policies to increase access to credit, make financial services more inclusive, and increase homeownership rates of low-income people and the Latino community.

Today’s overheated and hyper-competitive housing market places low- and middle-income homebuyers at a disadvantage, exacerbating inequality.

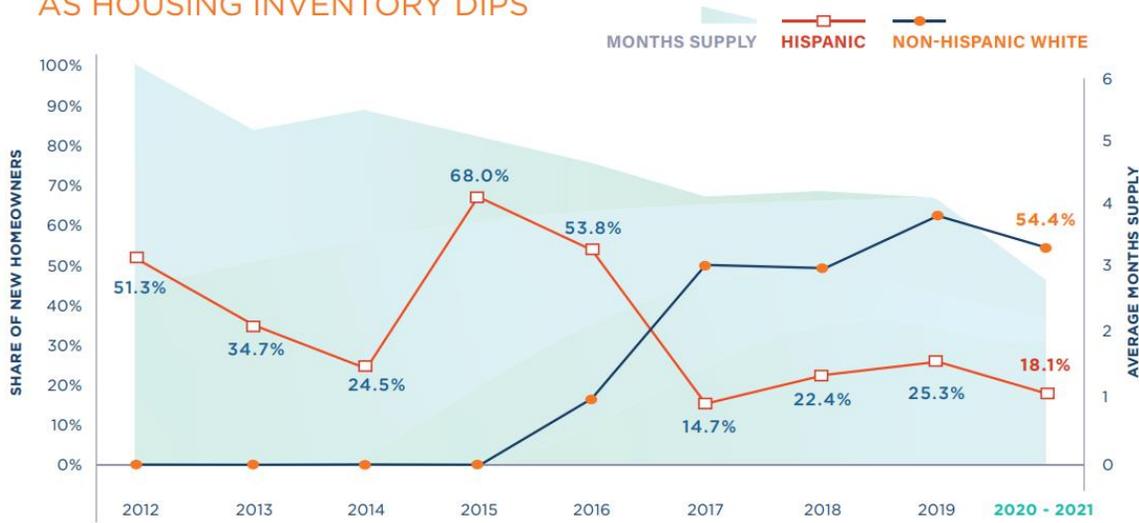
The United States is facing a large shortfall in housing supply, with Freddie Mac estimating a 3.8-million-unit deficit.¹⁰ Over the next decade, the number of households is expected to grow by 8.5 million, and it is clear that without significant increases in housing supply, intolerably high prices across the housing market will continue.

The pandemic fueled a desire for more space and single-family homes while simultaneously causing disruptions to the supply chain, further increasing the gap between supply and demand.¹¹ At the same time, the share of single-family home purchases by investors has continued to grow, accounting for more than 25% of all purchases nationally in various months of 2021.¹²

One result is a homebuying market that greatly disadvantages first-time homebuyers, delays entry into the housing market, and can exacerbate inequality. As inventory declines and prices rise, a majority of new homeowners has changed from Latino to non-Hispanic Whites, as illustrated in the graph below.

* The UWHA develops effective programs that blend research, advocacy, and direct housing and financial counseling. The UWHA is a HUD-approved housing counseling intermediary and trains hundreds of housing counselors emphasizing individual, culturally competent counseling. Established in 1997, the UWHA includes 50 independent community-based organizations that support more than 60,000 families a year.

LATINO SHARE OF NEW HOMEOWNERS DECLINES AS HOUSING INVENTORY DIPS



Source: “2020 State of Hispanic Homeownership Report” National Association of Hispanic Real Estate Professionals (NAHREP), <https://nahrep.org/downloads/2020-state-of-hispanic-homeownership-report.pdf>

Institutional investors can wield key advantages over families seeking a home in a competitive housing market.

As noted by the White House in the recently released White House Housing Supply Action Plan, the share of single-family home purchases by investors has continued to grow—accounting for more than 25% of all purchases nationally in various months of 2021.¹³ Some of the units being purchased by institutions will be removed from the pool of owner-occupied housing and made into long-term rentals, thereby lowering the opportunities for first generation homebuyers to enter the market and cementing the relative position of institutional owners.

Even in the search for homes to buy, institutional investors have key advantages over families seeking a home in today’s competitive housing market. First, institutional investors have deep pockets and frequently purchase homes with cash. In comparison, most families seeking to purchase a home must secure a mortgage. Due to their relative simplicity, all-cash offers are generally preferred by sellers. Second, institutional investors can assume greater financial risk concerning the condition of properties (sometimes buying them sight unseen) by wielding economies of scale to reduce renovation costs and negotiate lower labor costs by contractors.¹⁴

In addition, across the market, many buyers are waiving home inspection contingencies,¹⁵ bidding well over the asking price,¹⁶ and relying on “love letters” to help their bid stand out.¹⁷ So-called “love letters” can provide information to the seller, such as race, ethnicity, and family status, which can influence sellers’ decisions.

In the face of these obstacles, the homeownership gap must be addressed with specific policies to allow buyers a fair chance to compete.

Latino homeowners have 28 times the wealth of Latino renters' (with a median net worth of \$171,900 compared to \$6,210 median net worth, respectively).¹⁸ Increasing homeownership among Latinos will continue to build intergenerational wealth and reduce the existing wealth gap.¹⁹ Moreover, Latinos are more likely than other groups to have most of their assets invested in their homes.²⁰

Home equity is one of the largest components of net worth and over the long-term homeownership is correlated with wealth accumulation. This is particularly true for borrowers with the ability to maintain homeownership through market fluctuations.²¹

While Latinos will be a driving force behind new homeowner development, given the state of the housing market, there is an urgent need for specific supports to address the challenges they will face. The Housing Supply Action Plan released by the White House describes laudable steps to increase the overall supply of housing as well as housing that is affordable.²²

But the Administration cannot solve the crisis on its own. Congress must also implement transformative and badly needed housing investments. Only through a combination of administrative action and robust federal funding can the country truly resolve its affordable housing crisis.

In addition to increasing the supply of affordable housing, we urge support for policies to provide lower- and middle-income families the opportunity to compete in the homeownership market, such as:

- Down payment assistance for first time homebuyers. A down payment is one of the top three main barriers cited by Latinos looking to purchase a home.²³ Targeted first-generation, first-time down payment assistance (DPA) addresses a major barrier to homeownership for people of color, including Latinos. It can ensure that borrowers retain their limited cash reserves for homeownership retention and costs, including repairs or other expenses. A targeted DPA program can lead to both lower monthly payments and greater home equity.²⁴
- Housing counseling assistance for Latinos and others to overcome barriers. The federal government should continue to invest in and fund at significant levels existing housing counseling programs. This helps consumers increase their savings, reduce debt, raise their credit scores, and improves individuals' overall financial outlook.²⁵ In addition, counseling reduces the risk of foreclosure for borrowers ensuring that homebuyers are informed and empowered, benefitting both the borrower and the lending institution.²⁶
- Special Purpose Credit Programs (SPCPs), which are an impactful, but underused tool to address systemic barriers in financial systems. At their core, SPCPs are a vehicle to deliver on the 1974 Equal Credit Opportunity Act's promise that a person may not be

denied credit because of their race, gender, or other identities. For example, government-sponsored housing credit subsidy targeted at the aged or the poor; or programs offering credit to a limited clientele such as credit union programs and educational loan programs. If Latino entrepreneurs were given the same leg up from the financial system as their White counterparts, Latino-owned businesses could create \$2.3 trillion in annual revenue.²⁷ Latinos aspiring to become homeowners and who can access a sustainable mortgage loan can be a driving force of the housing market.²⁸

We sincerely thank the Chairwoman and Ranking Member and members of the subcommittee for their time and attention to this important matter.

Notes

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