Improving Homeownership Opportunities for Hispanic Families

A Review of the Literature

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

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Prepared for
U.S. Department of Housing and Urban Development
Office of Policy Development and Research

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March 2006

Table of Contents

Executive Summary

Homeownership rates have reached unprecedented levels in the U.S. According to 2005 Current Population Survey data, virtually every segment of the population has higher homeownership rates than a decade ago—although the gains have been largest among Hispanics. Between 1993 and the fourth quarter of 2005, ownership rates rose by 5.8 percentage points among non-Hispanic whites, 6.6 percentage points among blacks, and 10.6 percentage points among Hispanics. Yet despite these gains, sizable gaps in homeownership rates persist among Hispanics compared to non-Hispanic whites. As of the fourth quarter of 2005, 76 percent of non-Hispanic whites were homeowners, compared to 50 percent of Hispanics. Thus, despite the rapid growth in Hispanic homeownership over the past decade the gap between whites and Hispanics is still 26percentage points.

This report reviews the existing literature to examine what is known about the causes of the large gaps that exist between the homeownership rates of Hispanics and those of non-Hispanic whites as well as what is known about the best ways to narrow these gaps. More specifically, the goals of the report are three-fold:

1. To describe the demographic and socioeconomic characteristics of the U.S. Hispanic population and how these characteristics relate to the Hispanic homeownership gap;

2. To identify the main barriers to Hispanic homeownership, including both demographic and socioeconomic attributes of the Hispanic population and market factors such as the supply of mortgage financing, the prevalence of discriminatory treatment in both the housing and mortgage markets, and a lack of understanding and comfort with the homebuying and mortgage process by Hispanics; and

3. To catalogue existing efforts to address these barriers and to discuss what is known about the potential effectiveness of these approaches.

While the report mostly summarizes existing research, it also incorporates summary information on the Hispanic population derived from the decennial census and other publicly available national data sets.

The report demonstrates that Hispanics are quickly becoming a sizable proportion of the U.S. population and cannot be viewed as a single homogeneous group but rather are an increasingly diverse community. Hispanic households come from many different countries and differ across many demographic and socio-economic characteristics. Some Hispanics are born abroad and speak English poorly, while others are native-born citizens and speak English fluently. Of those who have immigrated to this country, some have been in the U.S. for many years, while others have been in the U.S. for only a few years. Nationally, Hispanic households have been heavily concentrated in the South and West – particularly in California and Texas – and a few metropolitan areas in the Northeast, but are now growing rapidly in many areas of the country. These characteristics are important, not only because they highlight the enormous diversity among Hispanic households, but also because they are critical to understanding the causes of observed homeownership gaps and how these gaps may change over time.

Hispanic homeownership rates are affected by many of the same demographic characteristics that influence homeownership rates among all households, but the rates are also shaped by characteristics that are particular to Hispanic immigrant communities. Hispanic homeownership rates and gaps are strongly related to the same factors that affect homeownership rates of all racial and ethnic groups, including age, income, level of education, net worth, household type, mobility, and place of residence. Hispanic homeownership rates also are shaped by nativity, country of origin, citizenship status, and number of years in the U.S. The literature analyzing Hispanic homeownership finds that the typical homeownership demand factors, most importantly income, age, and education, explain a large part of the Hispanic gap in homeownership rates. Another contributing factor for Hispanics is their concentration in higher cost urban areas and in the Western region of the country. In addition, the large share of immigrants in the Hispanic population is particularly important. Studies that control for differences between Hispanics and whites in terms of household characteristics and geographic location explain between half and three quarters of the overall Hispanic-white homeownership gap. But studies that include factors related to Hispanics immigration status, including the number of years residing in the U.S. and citizenship status, are able to account for much of the remaining difference in homeownership rates.

Hispanics confront numerous barriers that are associated with information gaps about the homebuying process and with their ability to access the housing and mortgage finance markets. For example, surveys of Hispanic renters have found that information gaps about the homebuying and mortgage qualification processes have discouraged some Hispanics from pursuing homeownership because their misunderstandings about the process lead them to believe that homeownership is unaffordable or too complicated, that banks are not to be trusted, or that they would not qualify for a mortgage when, in fact, they would. Hispanics' access to housing markets is limited by affordability problems as well as by discrimination in the housing market that makes housing search difficult. Access to housing finance is limited by poor credit histories, low wealth and income, and lack of proper documentation, which makes it difficult to meet standard underwriting guidelines. In addition, discrimination in the mortgage application process, can also frustrate Hispanics' pursuit of homeownership

Although the confluence of all of these barriers may seem insurmountable, government agencies and local communities have developed a litany of programs to help move Hispanic households into homeownership, although the success of many of these programs at addressing the specific needs of Hispanic families has yet to be firmly established. Some of these programs are designed to bridge information gaps through homeownership education and counseling and financial literacy courses that are targeted specifically at the Hispanic community through specialized outreach efforts and by offering materials and instruction in Spanish. Other programs attempt to improve the supply of affordable housing opportunities by granting development cost subsidies, providing regulatory relief, and reducing discriminatory practices in the housing marker. Many other programs use down payment and closing cost assistance, income subsidies for mortgage payment, relaxed mortgage underwriting guidelines, reductions in mortgage interest rates, and alternative approaches to resolving residency concerns both to help make homeownership affordable and to expand Hispanics' access to mortgage financing. Most of these policies are designed to help all low-income households, but are marketed and tailored by local groups that serve Hispanic communities. Unfortunately, it is difficult to catalogue and assess the scale and geographic coverage of the myriad programs and services available to help Hispanics households because there is only anecdotal information about efforts to specifically aide these households. Also, remarkably little is known about the effectiveness of various approaches to improving homeownership among low-income households generally or Hispanics specifically. The research that does exist primarily has focused on estimating the importance of reductions in access to mortgage finance to increasing homeownership rates. These studies suggest that Hispanic homeownership could be improved by between 3 to 7 percentage points if constraints on the supply of mortgage financing were relaxed. But no study has evaluated the potential impact of efforts to address the informational gaps that are considered so important for immigrant households.

Taken as a whole, this report suggests that Hispanics face a number of considerable barriers to homeownership in the U.S. A significant factor explaining the relatively low homeownership rates among Hispanics is that, compared to whites, a relatively large share of Hispanics have low-income and low wealth levels. While there are a number of policies aimed at assisting low-income and low-wealth households generally in becoming homeowners, the number of households assisted annually by these efforts is fairly small compared to the number of households eligible. The immigrant status of many Hispanics is also an important contributing factor to observed homeownership gaps. Some immigrants may prefer not to purchase a home because they may not plan on being permanent residents of the U.S., for some immigrants a lack of information about the homebuying process and an inability to meet mortgage underwriting criteria may be significant obstacles. While there are numerous examples of efforts by local and national organizations to address these informational and financial barriers to homeownership faced by immigrants, little is known about their effectiveness. There is a clear need for further research into the effectiveness of these efforts to ensure that the resources that are devoted to expanding homeownership opportunities for Hispanics are well targeted.

The introductory chapter of the report begins with a brief synopsis of the benefits of homeownership and the factors that make homeownership both desirable and feasible. This chapter also presents a profile of Hispanics in the United States to help put the disparities in homeownership rates between Hispanics and whites in context. Chapter 2 then describes the size of the Hispanic-white homeownership gap and trends in the gap over time. The chapter then discusses specific demographic and housing market factors that contribute to these gaps, including both descriptive information as well as a review of the literature that has examined these issues. Chapter 3 categorizes the principal barriers to Hispanic homeownership and summarizes what is known about the extent and nature of these barriers. Chapter 4 identifies existing strategies for addressing each of these barriers, including examples of policies and programs employed by government agencies, non-profit and for-profit organizations. The chapter also reviews what is known about the effectiveness of these efforts. The report concludes with a summary of findings.

Chapter 1
Introduction

Homeownership rates have reached unprecedented levels in the U.S. According to 2005 Current Population Survey data, virtually every segment of the population has higher homeownership rates than a decade ago—although the gains have been largest among Hispanics. Between 1993 and the fourth quarter of 2005, ownership rates rose by 5.8 percentage points among non-Hispanic whites, 6.6 percentage points among blacks, and 10.6 percentage points among Hispanics. Yet despite these gains, sizable gaps in homeownership rates persist among Hispanics compared to non-Hispanic whites. As of the fourth quarter of 2005, 76.0 percent of non-Hispanic whites were homeowners, compared to 50.0 percent of Hispanics. Thus, despite the rapid growth in Hispanic homeownership over the past decade the gap between whites and Hispanics is still 26.0 percentage points.

This report examines Hispanic homeownership rates and gaps in an effort to understand the major barriers that restrict homeownership opportunities for this group.[1] First, the report uses decennial census data to discuss the size of the Hispanic homeownership gap and major trends since 1980. The descriptive analysis is supplemented by a review of the literature on homeownership that suggests which demographic and socioeconomic characteristics of the Hispanic population contribute to the gap. Second, the report delineates the barriers to Hispanic homeownership beyond the demographic and socioeconomic characteristics of Hispanic households and summarizes the literature that investigates these issues. These barriers include problems accessing mortgage financing, discriminatory treatment in both the housing and mortgage markets, and a lack of understanding and comfort with the homebuying and mortgage processes. Finally, the report discusses existing efforts to address these barriers and what is known about the potential effectiveness of these approaches.

Thus, the report presents a comprehensive look at Hispanic homeownership rates and gaps that is informed by current data and existing studies. The rest of this introductory chapter provides a broader context by reviewing the nature of homeownership and of the Hispanic population of the U.S. Specifically, the introduction addresses the following issues:

- Why study homeownership rates? Or put differently, what are the potential benefits associated with homeownership? Federal, state, and local policymakers generally view homeownership as a critical force behind an individual's economic upward mobility and a community's stability. The rationale underpinning these assumptions is worth delineating.

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[1] This report is part of a series of studies commissioned by HUD to examine Hispanic homeownership. Other studies completed as part of this effort include: a review of underwriting guidelines used by Fannie Mae, Freddie Mac, FHA, and a representative subprime lender to identify potential barriers in the lending industry for Hispanic homebuyers; case studies of efforts to assist Hispanic buyers in three market areas (Orlando, San Antonio, and Washington, DC); and four empirical studies of data from the decennial census and the American Housing Survey examining specific aspects of Hispanic homeownership trends and barriers. See Cortes *et al*. (2006) for a summary of all of these reports.

- What factors drive a household's propensity for homeownership? Homeownership rates and gaps are a function of both demand- and supply-side forces that drive a household's decision to own rather than rent.
- Who are Hispanics? The term "Hispanic" groups indiscriminately all persons of Spanish origin into a minority category, masking enormous diversity among Hispanics that is important to understanding how homeownership rates and gaps vary and change.

The Benefits of Homeownership

Promoting homeownership has long been an objective of housing policy in the U.S. and is reflected in a wide variety of federal, state, and local programs and policies. The Internal Revenue Service, the U.S. Department of Housing and Urban Development, state housing finance agencies, and local community development corporations are among the numerous actors that promote homeownership. Underlying these programs is the belief that homeownership provides benefits both to individuals and communities.

Homeownership is thought to benefit individuals both economically and socially.[2] Economically, the preferential tax treatment of mortgage interest, property tax payments and imputed rent can provide homeowners with significant tax savings and thus the overall costs of owning a home can be lower than renting (Follain *et al.*, 1993). However, low-income owners realize fewer of these benefits as a result of being in lower marginal tax brackets and being less likely to itemize deductions. Also, several recent studies have found that fluctuations in house prices coupled with high transaction costs can make homeownership a financially risky investment (Belsky and Duda, 2002; Goetzmann and Spiegel, 2002; Harding, Rosenthal, and Sirmans, 2004). Still, homeownership does provide the ability to accumulate wealth through principal payments and asset appreciation, even for low- and moderate-income homeowners (Boehm and Schlottmann, 2004; Pollakowski *et al.*, 1991).

The evidence is stronger for positive social outcomes associated with homeownership and includes findings that, compared to renters, homeowners are more likely than renters to participate in local organizations; engage in informal forms of social interaction (e.g., frequent interactions with neighbors); develop stronger commitments to their local areas; maintain their dwellings in good condition; stay in their local areas for longer periods of time; and show a higher sense of well-being (e.g., claim to be happier and to have a higher sense of self-esteem). These social benefits are apparent even after controlling for income, education and other socioeconomic characteristics (DiPasquale and Glaeser, 1999; Dietz and Haurin, 2003, Herbert and Belsky, 2006).

Related to these individual benefits are the benefits to communities that come from homeownership, some of which derive from the benefits homeownership confers on individuals and others from the types of households that become homeowners. Homeownership is associated with healthier and more stable neighborhoods, because owners are economically and socially invested in their communities and have a stake in promoting their neighborhoods' well-being. Homeowners help to make

[2] For a comprehensive review of the literature examining the extent to which low-income and minority households benefit from homeownership see Herbert and Belsky (2006).

neighborhoods more attractive places to live and work by investing in their properties, demanding higher quality public services, and participating in neighborhood improvement associations. Because homeowners are more likely to stay in their communities, they help provide neighborhood stability (Rohe, Van Zandt, and McCarthy, 2002).

Despite these alluring benefits to individuals and spill-over effects for communities, many households choose to rent rather than own. The factors that contribute to a household's tenure choices are discussed in the next section.

The Propensity for Homeownership

A household's propensity to own rather than rent is driven both by the household's demand for homeownership and by supply constraints that restrict access to homeownership.[3] There are a variety of factors that fuel demand for homeownership, including the desires for greater control over the home and greater privacy, as well as the social status that is associated with being a homeowner. However, financial aspects of homeownership are very important. From a financial point of view, a household's demand for homeownership can be thought of as a function of two factors: the relative cost of owning compared to renting and a household's investment and consumption demands for housing. The supply constraints that restrict a household's access to homeownership stem from the availability of suitable housing units and the availability of mortgage credit. Each of these factors is discussed in turn.

The Demand for Homeownership

The demand for homeownership has been examined using two approaches: a user cost model for owning compared to renting and an analysis of homeownership investment and consumption good.

User Cost Model. The user cost model calculates a household's relative cost of owning compared to renting a home, given cost factors that vary for each household. The model compares the cost of owning versus renting after considering the potential tax savings from homeownership, the expected return on a home over time, and the transaction costs of buying and selling real estate. The net effect of these cost factors often makes homeownership a financially attractive tenure decision.

For decades, the U.S. tax code has offered homeowners considerable tax savings by allowing deductions for mortgage interest and property tax payments. Renters also benefit indirectly from these tax code provisions[4] if landlords pass their tax savings onto tenants in the form of lower rents. Both theoretical and empirical studies have demonstrated that the net effect of these tax provisions is to subsidize the cost of homeownership when compared to renting. An important factor in the tax advantages for homeowners compared to renters is that homeowners do not have to pay taxes on the equivalent of the rent received by landlords, that is, the value of occupying the housing unit. In essence, while homeowners get to deduct some of the costs of homeownership (property taxes and

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[3] This section draws heavily from Herbert *et al*. (2005).

[4] Landlords are taxed on their cash rent but are permitted deductions for mortgage interest, property taxes, and maintenance expenditures.

mortgage interest payments), they do not have to report any imputed rental income against these costs. One study estimated that the average amount actually paid by homeowners for each dollar in housing costs is approximately 74 cents (Hoyt and Rosenthal, 1990).

The user cost model also considers the expected capital gain on a home over time. The tax code has historically treated capital gains more favorably for homeowners than for landlords by shielding a portion of these gains from taxation. Since 1998, capital gains of up to $500,000 for married couples and $250,000 for single persons are exempt from federal taxation.[5] This aspect of the tax policy permits homeowners to retain a higher share of expected capital, thereby reducing the user cost of homeownership and encouraging homeownership.

The expected capital gain on a home depends in part on the length of stay in a home. Offsetting capital gains from selling a home are the transaction costs associated with buying and selling, which are not incurred by renters. Homeowners typically must pay 6 percent of the home's sale price for the real estate agent's services, as well as legal fees, taxes, and settlement services. However, the impact of these transaction costs declines with the length of stay in the home, because longer stays spread the costs over more years and defer the costs to a later period. Since capital gains increase and transaction costs decline with length of stay in the home, the appeal of homeownership is greater for households who are unlikely to want to move in the near future.

Investment and Consumption Approach. Another major distinguishing feature of homeownership is that it represents both an investment and a consumption good. The investment demand for housing is influenced by the relative risk and return of housing compared to a household's overall investment portfolio. On the consumption side, greater demand for housing is associated with household type, size, and income, and with other household characteristics that influence the demand for the public services that are bundled with residential location.

When a household demands more housing to satisfy consumption needs than is sensible from an investment perspective, the household is likely to rent. For example, if a family expects relatively low investment returns on housing investment but also needs a large home to accommodate a new child, it is less likely to purchase a home to satisfy the increased consumption demand. The family is better off by renting. Alternatively, when housing is expected to appreciate greatly and a family's consumption demands are modest, homeownership is a more sensible choice. In general, households with low income and wealth and high expected mobility would be expected to have limited investment demand for housing. This occurs because the tax benefits of homeownership would be limited, mobility makes the expected returns to homeownership low, and the concentration of assets in this one investment would be too high. Thus, limited investment demand for homeownership would be expected to lower the homeownership propensity of these households.

Supply Constraints on Homeownership

Availability of Single-Family Housing. Since the mid-1970s, researchers have studied the spatial concentration of minority households in central cities and its impact on access to opportunities. The

[5] In order to exclude gains up to these amounts the homeowner must have occupied the home for at least two years out of the last five years.

spatial mismatch hypothesis demonstrated that the concentration of minorities in inner-city neighborhoods and the suburbanization of employment opportunities reduced employment opportunities among minority households (Kain, 1992). Less well known is research that has applied the spatial mismatch theory to homeownership opportunities, showing how constraints on access to the supply of different types of housing (e.g., single-family versus multi-family) may contribute to lower minority homeownership rates (Kain and Quigley, 1975; Herbert, 1997).

Because developers are subject to higher land prices in central cities, central city developers favor high-rise and multi-family housing units on smaller lots over lower density developments covering large tracts of land. Therefore, city skylines are dominated by towering skyscrapers and tall apartment buildings rather than single-family units with chimneys. The relative lack of single-family housing units in central cities is important because: (1) single-family housing is more conducive to homeownership than multi-family housing; and (2) minority households are disproportionately located in central cities. As a result, minority households have limited access to single-family housing, which affects their tenure decision and likely contributes to lower homeownership rates when compared to non-minority households.

Mortgage Finance Constraints. Mortgage lenders can deny a loan to a borrower if the borrower fails to meet their underwriting standards. The application of these standards in the mortgage market can limit access to homeownership and can contribute to homeownership gaps if these rules affect ethnic and racial groups differently. Compared to their non-minority counterparts, minority households may be more likely to encounter credit barriers and downpayment constraints that restrict the availability of mortgage credit and limit their tenure decision. Discrimination in mortgage lending may further restrict homeownership opportunities.

Some minority households may be perceived as higher credit risks than non-minority households. For example, lenders may view minorities as higher credit risks if racial and ethnic discrimination in labor markets increases the likelihood that minorities will be laid off during an economic downturn. Lenders may seek to offset the higher risk through the underwriting process—this is evident, for example, in the higher interest rates charged by subprime lenders. The degree to which mortgage lenders offer higher interest rates to loan applicants perceived as posing greater default risk is a source of debate. Some argue that credit rationing and multiple loan rates arise if lenders group loan applicants on the basis of observable differences in credit risk. Low-risk borrowers are offered prime rates, while higher-risk borrowers are offered higher subprime interest rates. The higher rates might dissuade potential minority homebuyers if the expected capital gains no longer justify homeownership from an investment perspective.

In addition to charging higher interest rates based on perceived credit risks, lenders may view observable demographic characteristics as potential indicators of higher rates of late payments or defaults (often called "statistical" discrimination) or may avoid doing business with particular groups outright. Both forms of discrimination are illegal and have been extensively examined by researchers. Based primarily on a study conducted by researchers at the Boston Federal Reserve Bank, the consensus from the literature is that, as recently as the 1980s and 1990s, there was indeed discrimination in the mortgage market (Munnell *et al.*, 1996).

Others argue that Fair Lending Laws and the threat of costly litigation create strong incentives for lenders to offer similar loan rates to all borrowers (Duca and Rosenthal, 1994). Lenders are particularly mindful of fair lending practices when the credit risk is associated with politically sensitive characteristics, such as race and ethnicity, sex, and age.

Homeownership requires considerable household wealth to cover closing costs and downpayment requirements. There is substantial evidence that lack of wealth reduces the likelihood of becoming a homeowner and that minority households (especially blacks and Hispanics) have significantly less accumulated wealth than non-Hispanic whites. Moreover, downpayment constraints are particularly problematic for minority households who reside disproportionately in large central cities with high costs. The costs in these housing markets make it more difficult for households to accumulate the needed down payment, often a minimum of 3 to 5 percent of the total value.

Both demand and supply factors influence a household's propensity for homeownership and these factors are shaped, in turn, by the characteristics of households. The characteristics of Hispanics in the U.S. are less well documented than those of other groups, both because Hispanics are an enormously diverse group and because historical data is limited. The following section uses 2000 Census data to provide a profile of Hispanics in the U.S.

Hispanics in the U.S.

Documenting changes in the composition of the Hispanic population in the U.S. over time is complicated by data collection challenges and by a lack of consistency in how Hispanics have been defined. In addition, collecting data on Hispanics is challenging because there are undocumented Hispanics in the U.S. who do not respond to government surveys and, therefore, are unaccounted for in census statistics. The number of such households is unclear, but studies suggest that the estimated undercount of Hispanics in the 2000 census is about 2.85 percent (Paral and Associates, 2004) and that the foreign born have a higher undercount rate (Robinson, 2001).

Between 1930 and 1960, the U.S. Census used a variety of terms to define Hispanics that were commingled with racial classifications: "people who were born in Mexico or to parents born in Mexico" was used to define a separate Mexican category in the 1930 census. "Persons of Spanish mother tongue" was used in 1940. "White persons of Spanish surname" was used in 1950 and 1960, but only in five states in the Southwest. By 1970, the census began to separate racial classifications from Hispanic definitions. The Census used three different definitions of Hispanic origin for 1970 census reports: the Spanish language population (or "the population of Spanish mother tongue plus all other persons in families in which the head or wife reported Spanish mother tongue"); the Spanish heritage population (or "the population of Spanish language and/or Spanish surname in the five Southwestern states of Arizona, California, Colorado, New Mexico, and Texas, the population of Puerto Rican birth or parentage in New York, New Jersey, and Pennsylvania, and the population of Spanish language elsewhere"); and the population of Spanish origin or descent based on self-identification.

In 1980, the census included a separate ethnicity question based on Spanish/Hispanic origin or descent that allowed respondents to select among seven national origin categories: Mexican American, Mexicano, Chicano, Puerto Rican, Cuban, Central or South American, and other Spanish origin. Similarly, the 1990 census asked respondents to record whether they were of Spanish/Hispanic origin and listed seven response categories: not of Hispanic origin; Mexican,

Mexican-American, Chicano; Puerto Rican; Cuban; and other Spanish/Hispanic. Respondents were also allowed to write in a place of origin not listed on the form. Write-in responses were coded as either the country specified by the respondent, "South American" or "Central American" when the respondent wrote in these responses, or "other."

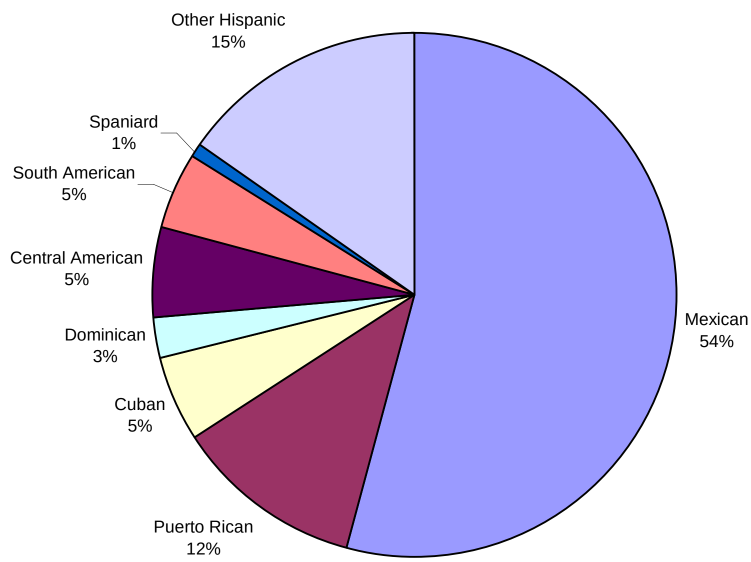
The 2000 census asked people to classify themselves as persons of Hispanic/Spanish/Latino origin based on their ancestry, lineage, heritage, nationality group, or country of birth. Race is collected separately from ethnicity. People of Hispanic origin may be of any race or multiple races, and respondents are allowed to choose from five response categories or write-in responses. Unlike the previous census, infrequent responses were coded as "other Central American," "other South American," or "other Spanish or Latino," rather than identified with a specific country. However, even the 2000 U.S. Census had difficulties collecting accurate data on Hispanics, particularly with respect to country of origin and racial characteristics (discussed below).

The following sections present a profile of Hispanic households in the U.S. They include information on the demographic, socio-economic, and immigration characteristics of Hispanic households, and on the geographic distribution of Hispanics across the U.S. Specifically, Hispanic homeownership rates tend to increase with age, income, level of education, net worth, and marriage formation, and are also shaped in less predictable ways by place of residence, nativity, country of origin, and degree of social integration (citizenship status and years in the U.S.). The relationship between these characteristics and homeownership is discussed in the following chapter.

Demographic and Socio-Economic Characteristics of Hispanic Households

In 2000, there are 9.2 million households of Hispanic origin in the U.S. and 35 million Hispanic persons, representing 8.7 percent of all U.S. households and 12.5 percent of the total U.S. population. As shown in Exhibit 1-1, 54 percent of Hispanic households are of Mexican origin, 12 percent are of Puerto Rican origin, 5 percent are of Cuban origin, and 3 percent are of Dominican origin.[6] South Americans and other Central Americans constitute 10 percent of Hispanic households, and 15 percent are "other Hispanics."[7]

Exhibit 1-1: Country of Origin Among Hispanic Households in the U.S., 2000



Source: Integrated Public Use Microdata Series (IPUMS) data from U.S. Census 2000 PUMS 1% sample.

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6 All data presented in the report are weighted to be representative of the population.

7 In the 2000 Census, write-in responses that were not classified into one of the response categories associated with twenty different countries were coded as "Other Central American," "Other South American," or "Other Spanish or Latino." It is unclear what types of write-in responses would be classified as "Other Spanish or

Exhibit 1-2 presents the racial characteristics of Hispanic and non-Hispanic households in the U.S. The racial classification of Hispanics has historically been problematic for the U.S. Census. In the 1980 and 1990 census reports, Hispanic persons were treated as "white" when the "other race" category was recorded in order to maximize historical comparability with previous census.[8] Applying this convention to 2000 census data suggests that 91 percent of Hispanic heads of household are white (50 percent "white" and 41 percent "other race"), 6 percent of Hispanic heads of household are of two or more races, and only 2 percent of Hispanic households are black.

Exhibit 1-2

Racial Characteristics of Hispanic and Non-Hispanic Households in the U.S., 2000

Race	Percent of Hispanic Households	Percent of non-Hispanic Households
White	50.4%	82.1%
Black or African American	2.0%	12.3%
American Indian/Alaska Native	1.0%	0.7%
Asian	0.3%	3.2%
Native Hawaiian/Pacific Islander	0.1%	0.1%
Some other race[1]	40.5%	0.1%
Two or more races	5.8%	1.5%
Total Number of Households	9,187,972	96,292,129

[1] In both the 1980 and 1990 Census, IPUMS classified Hispanic persons as "white" when "other race" category was recorded to maximize historical comparability.

Source: Integrated Public Use Microdata Series (IPUMS) data from U.S. Census 2000 PUMS 1% sample.

Exhibit 1-3 presents the socio-economic characteristics for Hispanic and non-Hispanic households in 2000. More than two-fifths of Hispanic households (44 percent) earn less than $30,000 annually, and fewer than one-quarter earn more than $60,000 a year (22 percent). By contrast, only one-third of non-Hispanic households (34 percent) earn less than $30,000, and more than one-third (34 percent) earn over $60,000 annually. Thus, Hispanics are more likely to be low- or moderate-income households than their non-Hispanic counterparts.

In addition, Hispanic households are relatively poorly educated. Almost one-half of Hispanic heads of household (46 percent) have less than a high school education, and only one-third have some education beyond high school. Very few Hispanic households have a professional or graduate degree (4 percent). By contrast, about one-sixth of non-Hispanic households (16 percent) have less than a

Latino." Most Caribbean countries are not included in the list of twenty response categories, but it is unlikely that these countries collectively comprise 15 percent of Hispanic households in the U.S.

[8] The Integrated Public Use Microdata Series (IPUMS) re-coded as "White" those who marked "other race" and identified themselves as being of Hispanic origin on the Hispanic origin question.

high school education, and more than half (56 percent) experience some type of education beyond high school. Nearly 10 percent of non-Hispanic households have a graduate or professional degree.

Exhibit 1-3

Socio-Economic Characteristics of Hispanic and non-Hispanic Households in the U.S., 2000

Income	**Percent of Hispanic Households**	**Percent of non-Hispanic Households**
<$10,000	12.7%	9.3%
$10,000 and <$20,000	15.9%	12.3%
$20,000 and <$30,000	15.8%	12.7%
$30,000 and <$40,000	14.0%	12.2%
$40,000 and <$50,000	10.9%	10.6%
$50,000 and <$60,000	8.4%	9.0%
$60,000 and <$70,000	6.2%	7.3%
$70,000 or more	16.2%	26.6%
Education		
Less than High School	45.6%	16.3%
High school graduate, or GED	21.8%	27.8%
Some college, no degree	17.1%	22.5%
Associate degree	4.4%	6.2%
Bachelors degree	7.1%	16.9%
Professional/Graduate degree	4.1%	10.3%
Age		
<30	20.8%	12.0%
30-34	14.4%	8.9%
35-44	26.9%	22.2%
45-54	18.0%	20.4%
55-64	9.7%	13.9%
65-74	6.5%	11.5%
75+	3.8%	11.1%
Household Type		
Married couples with children	37.8%	23.1%
Married couples without children	19.9%	30.4%
Other Families with children	14.7%	8.1%
Other Families without children	9.2%	6.4%
Other[1]	18.3%	32.0%
Total Number of Households	9,187,972	96,292,129

[1] Other household types include singles; separated, divorced, widowed people (without own children); and other unrelated people living together (without own children).

Source: Integrated Public Use Microdata Series (IPUMS) data from U.S. Census 2000 PUMS 1% sample.

Exhibit 1-3 also suggests that Hispanic households are much younger than their non-Hispanic counterparts. More than three-fifths of Hispanic households (62 percent) are under age 45, compared to approximately two-fifths of non-Hispanic households (43 percent). A greater percentage of Hispanic heads of household are in each of the three youngest age categories compared to non-Hispanics: under 30 (21 versus 12 percent); 30 to 34 (14 versus 9 percent); and 35 to 44 (27 versus 22 percent).

The majority of both Hispanic (58 percent) and non-Hispanic (54 percent) heads of household are married. Married couples with children and without children constitute approximately 38 and 20 percent of Hispanic households. Non-Hispanic married couples are less likely to have children. Also, a larger proportion of Hispanic households were in other families with children. Across all the household types, 43 percent of Hispanic households have children compared to 30 percent of non-Hispanic households.

Immigration Characteristics of Hispanic Households

Exhibit 1-4 presents information on the immigration characteristics of Hispanic households living in the U.S. in 2000. The majority (53 percent) are foreign-born, much larger than the proportion of non-Hispanic households (8 percent). Despite the large proportion of foreign-born households, more than two-thirds of Hispanic households (68 percent) are U.S. citizens. (These data suggest that approximately one-fifth of Hispanic households are naturalized citizens.) By contrast, nearly all non-Hispanic households (97 percent) are U.S citizens.

The large proportion of foreign-born Hispanic households may suggest that a similarly large proportion of Hispanics have poor English-speaking skills. However, only about one-quarter of Hispanic heads of household report that they do not speak English (8 percent) or speak English poorly (18 percent). The majority of Hispanic households (75 percent) consider that they speak English fluently.

Among Hispanic immigrant[9] households, most have been in the U.S. for many years. More than half of these households (54 percent) have lived in the U.S. for 16 years or more, and few (13 percent) have been in the U.S. for 5 years or less. In this respect, Hispanic immigrants are similar to other immigrant households. The vast majority of non-Hispanic households (60 percent) with foreign-born heads have lived in the U.S. for 16 years or more. These data suggest that many immigrant households have been in the U.S. long enough to be exposed to homeownership opportunities.

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[9] An immigrant is defined as a foreign-born head of household, including persons born in Puerto Rico, other U.S. outlying areas, and persons born abroad to U.S. parents. There were 4,819,856 Hispanic immigrant households in 2000.

Exhibit 1-4

Immigration Characteristics of Hispanic and Non-Hispanic Households in the U.S., 2000

	Percent of Hispanic Households	Percent of non-Hispanic Households
Nativity		
Native born	47.0%	91.9%
Foreign born	53.0%	8.1%
Citizenship Status		
U.S. citizen	67.8%	96.9%
Not a U.S. citizen	32.2%	3.1%
English Speaking		
Yes, speaks only English	17.8%	91.4%
Yes, speaks very well	37.1%	5.3%
Yes, speaks well	19.9%	2.0%
Yes, but not well	17.8%	1.1%
Does not speak English	7.6%	0.2%
Years in the U.S. for foreign born[1]		
0-5 years	12.8%	14.5%
6-10 years	14.8%	12.8%
11-15 years	18.7%	11.8%
16-20 years	16.2%	12.3%
21+ years	37.4%	48.6%

[1] Only includes households with immigrant heads of household, defined as any person who was foreign born, including persons born in Puerto Rico or other U.S. outlying areas and persons born abroad to U.S. parents.

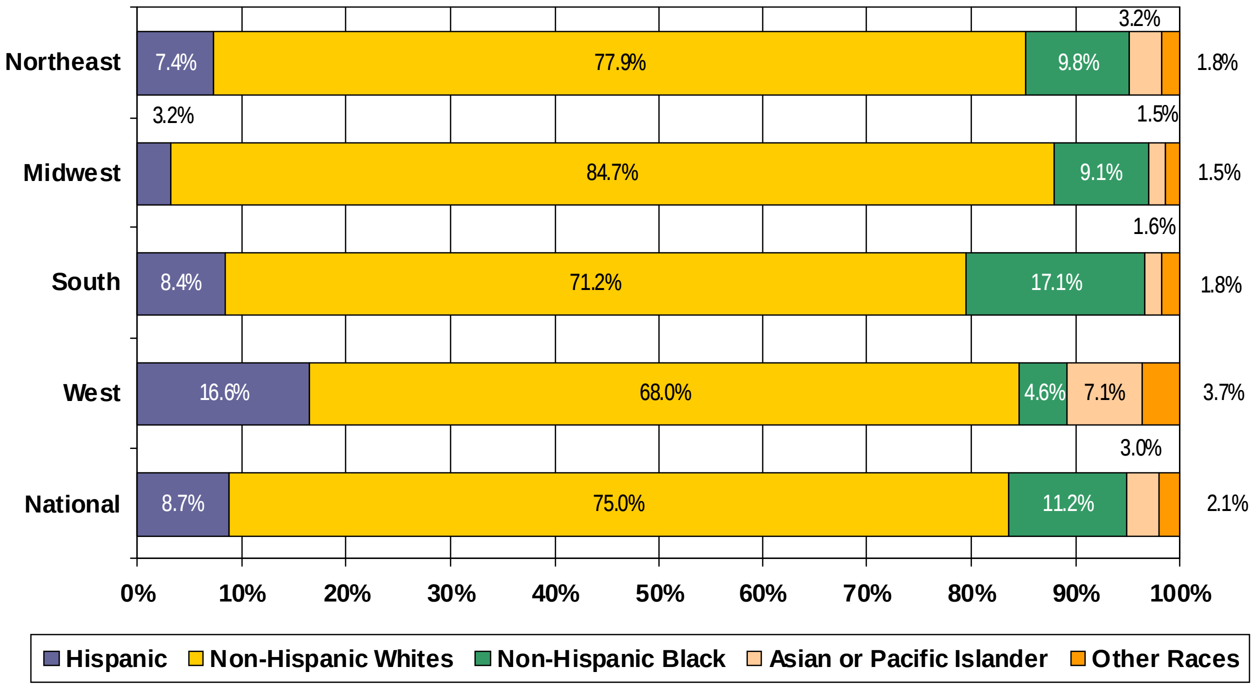
Source: Integrated Public Use Microdata Series (IPUMS) data from U.S. Census 2000 PUMS 1% sample.

Geographic Distribution of Hispanic Households

Exhibit 1-5 compares the geographic distribution of Hispanic households to that of other minority groups and to non-Hispanic whites. The geographic distribution of Hispanics across the U.S. is uneven. Hispanic households are heavily represented in the West (17 percent of the region's households are Hispanic), slightly underrepresented in the South (8 percent of the region's households) and the Northeast (7 percent of the region's households), and considerably underrepresented in the Midwest (only 3 percent of the region's households).

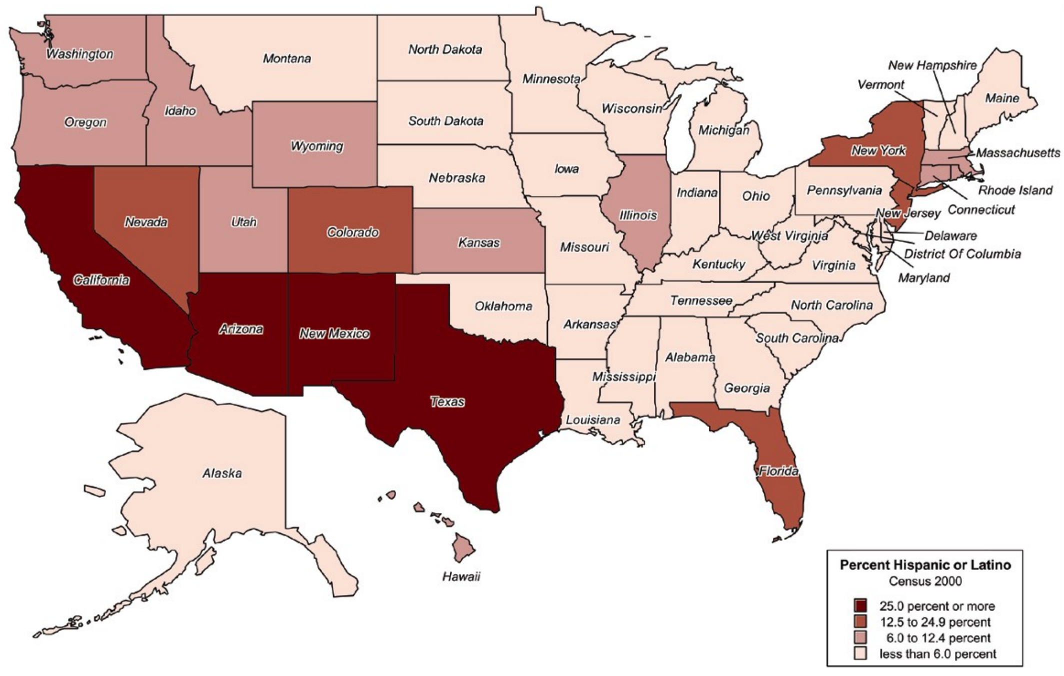
Exhibit 1-5

Percentage of Hispanic and Non-Hispanic Households in the U.S. by Region, 2000



Source: *Integrated Public Use Microdata Series (IPUMS) data from U.S. Census 2000 PUMS 1% sample.*

Exhibit 1-6
Population Percent Hispanic, by State, 2000



ource: Census 2000 Summary File 1 United States (Table P4), prepared by the U.S. Census Bureau, 2001.

The distribution of the Hispanic population across states is shown in Exhibit 1-6 as the percent of each state's total population. Hispanics represent 25 percent or more of the total state populations in Arizona, California, New Mexico, and Texas. Hispanics are also heavily concentrated in Colorado, Florida, Nevada, New Jersey and New York, constituting 12.5 to 24.9 percent of these states' populations. Except for Illinois and Kansas, Hispanics are considerably underrepresented in the Midwest.

Exhibit 1-7 presents the proportion of Hispanic and non-Hispanic households in metropolitan and non-metropolitan areas. The overwhelming majority (78 percent) of Hispanic households reside within metropolitan areas and few households are found in non-metropolitan areas (2 percent). An equal share of Hispanic households (approximately 16 percent) live in and outside central cities, although the central city status of many Hispanic households living in metropolitan areas is not identified (46 percent). By contrast, fewer non-Hispanic households are located in metropolitan areas (57 percent) and the proportion of households in non-metropolitan areas (4 percent) is double that of Hispanic households. Also, many fewer non-Hispanic households live in central cities (8 percent).

Exhibit 1-7

Household Distribution Among Metropolitan and Non-metropolitan Areas in the U.S., 2000

	Percent of Hispanic Households	Percent of Non-Hispanic Households
Metropolitan Area		
Central City	16.2%	7.5%
Outside Central City	15.7%	13.7%
Central City Status Unknown[1]	46.4%	36.2%
Not in a Metropolitan Area	1.7%	4.1%
Not Identifable[2]	20.0%	38.5%
30 Largest Metropolitan Areas[3]	52.6%	32.6%

1 The 1% sample data cannot identify the metropolitan status of households located in geographic units that contain fewer than 400,000 people. Because of the large population threshold, the central city status is unknown for many cases in metropolitan areas.

2 The metropolitan status of households located in urban areas with less than 400,000 people are suppressed by the U.S. Census Bureau.

3 The 30 largest metropolitan areas had a minimum of 601,524 households.

Source: Integrated Public Use Microdata Series (IPUMS) data from U.S. Census 2000 PUMS 1% sample.

The exhibit also suggests that Hispanic households are more heavily concentrated in the nation's largest metropolitan areas than non-Hispanic households. More than half of all Hispanic households (53 percent) live in one of the 30 largest metropolitan areas, while one-third of non-Hispanic households (33 percent) live in these areas.

Exhibits 1-5 through 1-7 demonstrate that, as of 2000, Hispanic households live predominantly in the South and West regions and most live within metropolitan areas. Exhibit 1-8 identifies the 30 metropolitan areas with the highest concentration of Hispanic households in the U.S. Overall, approximately 56 percent of Hispanic households (or 5.1 million households) live in one of these 30 metropolitan areas, and 19 of the 30 metropolitan areas are in California and Texas. Arizona (Tucson and Phoenix metropolitan areas) and New Mexico (Albuquerque metropolitan area) also have sizable proportions of Hispanic households. Only six metropolitan areas (Miami-Hialeah, FL; Jersey City, NJ; New-York-Northeastern, NJ; Hartford-Bristol-Middleton-New Britain, CT; Orlando, FL; and Bergen-Passaic, NJ) outside of the Southwest have very large concentrations of Hispanic households.

Exhibit 1-8

Metropolitan Areas with the Largest Proportion of Hispanic Households, 2000

	Metropolitan Area	Number of Hispanic Households	Percent of the Total Metropolitan Population
1	McAllen-Edinburg-Pharr-Mission, TX	128,991	80.8%
2	El Paso, TX	151,687	71.5
3	Miami-Hialeah, FL	387,085	58.7
4	San Antonio, TX	227,366	46.4
5	Albuquerque, NM	73,975	33.9
6	Fresno, CA	83,966	33.6
7	Jersey City, NJ	76,605	33.6
8	Los Angeles-Long Beach, CA	1,004,928	32.1
9	Bakersfield, CA	60,231	28.4
10	Riverside-San Bernardino, CA	231,786	27.9
11	Modesto, CA	31,722	22.4
12	Stockton, CA	40,833	22.3
13	Ventura-Oxnard-Simi Valley, CA	54,479	22.1
14	Houston-Brazoria, TX	321,180	22.0
15	Tucson, AZ	72,189	21.6
16	New York-Northeastern NJ	691,945	21.2
17	Austin, TX	72,944	20.4
18	Orange County, CA	181,940	19.3
19	San Diego, CA	184,908	18.4
20	Dallas-Fort Worth, TX	189,173	16.5
21	Phoenix, AZ	184,638	16.3
22	San Jose, CA	91,741	16.2
23	Las Vegas, NV	75,572	14.8
24	Hartford-Bristol-Middleton-New Britain, CT	25,612	14.4
25	Denver-Boulder-Longmont, CO	105,948	13.6
26	Orlando, FL	83,354	13.2
27	Vallejo-Fairfield-Napa, CA	22,745	13.1
28	Bergen-Passaic, NJ	64,799	13.1
29	Fort Worth-Arlington, TX	73,145	13.0
30	Oakland, CA	111,775	12.9

Source: Integrated Public Use Microdata Series (IPUMS) data from U.S. Census 2000 PUMS 1% sample.

The Los Angeles-Long Beach (CA), New York-Northeastern (NJ) and Miami-Hialeah metropolitan areas have the largest absolute numbers of Hispanic households. The ten metropolitan areas with the smallest percentage of Hispanic households included: Akron, OH (0.4. percent); Scranton-Wilkes-Barre, PA (0.6 percent); Cincinnati OH/KY/IN (0.7 percent); Pittsburgh-Beaver Valley, PA (0.7 percent); Knoxville, TN (0.7 percent); Canton, OH (0.7 percent); Jackson, MS (0.8 percent); Dayton-Springfield, OH (0.9 percent); Baton Rouge, LA (1.1 percent); and Birmingham, AL (1.1 percent).

Summary of Findings

In summary, Hispanic households come from many different countries and differ across many demographic and socio-economic characteristics. Some Hispanic heads of household are foreign born or speak English poorly, while others are native-born or speak English fluently. Among immigrant Hispanic households, most have been in the U.S. for more than 21 years, but many households have been in the U.S. for a shorter time period. A large proportion of Hispanic households are located in the South and West, especially in California and Texas, although a few metropolitan areas in the Northeast also have very high concentrations of Hispanic households.

These characteristics are important, not only because they highlight the enormous diversity among Hispanic households, but also because they are critical to understanding how Hispanic homeownership rates and gaps may change over time. As will be discussed in the next chapter, a number of studies have found that many of these characteristics are associated either positively or negatively with the likelihood that a household will become a homeowner.

- *Income.* Higher incomes are associated statistically with higher homeownership rates, but most Hispanic households have low to moderate incomes.
- *Education.* Homeownership rates increase as level of educational attainment rises, and many Hispanic households are poorly educated.
- *Age.* Homeownership rates tend to increase for all populations as they age, but the age structure of the Hispanic population is young.
- *Household Type.* Marriage is a strong determinant of homeownership, and the majority of Hispanic households are married.
- *Nativity.* Native-born populations tend to have higher homeownership rates, but slightly over half of Hispanic households are foreign born.
- *Country of Origin.* Hispanic immigrants from certain countries tend to have higher rates of homeownership than other Hispanic immigrants.
- *Citizenship status.* Citizens' homeownership rates consistently surpass those of non-citizen Hispanic households.
- *English Speaking.* Immigrants fluent in English are more likely to be homeowners than immigrants with little English proficiency, especially immigrants who do not speak English at all.
- *Years in the U.S.* Among immigrants homeownership rates increase with length of time spent living in the U.S., and of the slight majority of Hispanic households that are immigrants, a little less than half have lived in the U.S. for less than 16 years as of 2000.
- *Place of residence.* Households living in high cost housing markets in some of the nation's largest metropolitan areas are less likely to become homeowners, and Hispanics are disproportionately concentrated in large metropolitan areas.

As the share of Hispanics in the U.S. increases, national homeownership rates will be influenced by the characteristics of Hispanics. Over the next twenty years, the number of Hispanic households is projected to grow substantially, and Hispanics will account for approximately 17 percent of the total U.S. population by 2020 (Masnick and Di, 2002; and Richie, 2001). Approximately 7.5 million net Hispanic households will be added to the U.S. population, compared to 4.7 non-Hispanic black households, 3.1 non-Hispanic Asians/others, and 8.5 non-Hispanic white households. The increase in the number of Hispanic households is expected to result from two factors. The Hispanic population's younger age structure will foster faster new household formations among Hispanics, while few households will be lost to aging. Also, the duration of residence among the many immigrants who arrived during the 1980s and 1990s will increase during the next twenty years, and this will also lead to increases in household formation. Hispanics' higher than average fertility rates will contribute further to Hispanic household formation in the more distant future.

Moreover, the projected net growth in homeowners among Hispanic households is expected to be 4.6 million by 2020, compared to 3.7 million blacks, 2.0 million Asians/others, and 11.9 million non-Hispanic whites (Masnick and Di, 2002). This projection is based on a set of conservative estimates about the levels of foreign immigration and macro-economic and housing market conditions, and relies heavily on statistical associations between demographic and socio-economic characteristics and homeownership rates. These statistical associations will be discussed further in the next chapter.

Chapter 2
The Hispanic Homeownership Gap: Size, Trends, and Contributing Factors

Since 1970, homeownership rates have steadily climbed for all segments of the population and rates are currently at historically high levels. Today, homeowners account for more than two-thirds of all households in the U.S. (69.0 percent as of the fourth quarter of 2005). Despite these gains, there are large homeownership gaps between non-Hispanic whites and minority populations, especially Hispanics. This chapter begins with a brief overview of trends in Hispanic homeownership from 1980 to 2000 as documented by the decennial censuses. The analysis relies on data from the decennial census because of the rich detail afforded by these data. The second section accounts for the majority of the chapter and describes the socioeconomic factors that help explain the gap in the homeownership rate for Hispanics compared to non-Hispanic whites. The final section briefly summarizes the main findings.

Hispanic Homeownership Rate and Gap

In 2000, there were over 105.4 million households in the U.S., and approximately 69.8 million were homeowners. Yet, less than half of the 9.1 million Hispanic households were homeowners (45.6 percent), compared to a large majority of the 79 million non-Hispanic whites (72.4 percent) (Exhibit 2-1). The homeownership rate for non-Hispanic blacks (46.6 percent), Asians or Pacific Islanders (53.0 percent), and other non-Hispanic racial minorities[10] (51.1 percent) was also considerably lower than the rate for non-Hispanic whites. As Exhibit 2-1 demonstrates, Hispanics had the largest homeownership gap (26.8 percentage points) of any minority group in 2000.

Homeownership rates have improved for most groups since the early 1990s. The Hispanic homeownership rate increased by 3.5 percentage points during the decade (from 42.1 percent in 1990), the largest gain among all racial and ethnic minorities and the only rate increase to exceed the increase among non-Hispanic whites. As a result, the homeownership gap between Hispanics and non-Hispanic whites narrowed slightly, by 0.11 percentage points, while it increased for non-Hispanic blacks by 0.65 percentage points), Asians or Pacific Islanders by 2.48 percentage points, and other non-Hispanics by 5.08 percentage points. Nonetheless, Hispanics evinced the largest homeownership gap compared to non-Hispanic whites than any other minority group.[11]

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[10] This category includes non-Hispanic household heads who selected two or more race categories on the Census.

[11] Data from the 2005 Current Population Survey indicates that gains in Hispanic homeownership rates have continued to outpace gains among non-Hispanic whites since 2000. From 2000 to the fourth quarter of 2005, the non-Hispanic white rate increased by 2.2 percentage points (from 73.8 to 76.0), while the Hispanic rate grew by 3.7 percentage points (from 46.3 to 50.0). Over the same period, the homeownership rate among blacks increased by 1 percentage point.

Exhibit 2-1

Homeownership Rates and Gaps[1], 1980-2000

	1980			1990			2000		
Household Head	**Households**	**Rate**	**Gap**	**Households**	**Rate**	**Gap**	**Households**	**Rate**	**Gap**
Hispanic	4,010,898	44.1%	-24.9%	5,812,158	42.1%	-26.9%	9,187,972	45.6%	-26.8%
Non-Hispanic Black	8,284,691	45.4%	-23.6%	9,691,699	43.9%	-25.2%	11,796,057	46.6%	-25.9%
Non-Hispanic Asian or Pacific Islander	1,022,940	52.5%	-16.5%	1,911,257	52.2%	-16.9%	3,181,674	53.1%	-19.4%
Other Non-Hispanic	485,017	52.6%	-16.4%	628,292	52.9%	-16.2%	2,236,977	51.2%	-21.3%
Non-Hispanic White	66,590,515	69.0%		73,664,936	69.1%		79,077,421	72.5%	
Total	80,394,061	65.0%		91,708,342	64.2%		105,480,101	66.2%	

[1] Homeownership gaps are calculated in relation to the non-Hispanic white homeownership rate.

Sources: U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.

During the 1980s, homeownership rates decreased for nearly all minority groups. The Hispanic homeownership rate dropped from 44.1 percent in 1980 to 42.1 percent in 1990, and also declined during the 1980s for non-Hispanic blacks. The rate among non-Hispanic whites increased very slightly. Accordingly, homeownership gaps grew during the 1980s. The gap compared to the rate for non-Hispanic whites increased by more than 2 percentage points for Hispanics and by 1.5 percentage points for non-Hispanic blacks. In 1990, Hispanics again had the largest homeownership gap of any minority group (26.9 percentage points), slightly higher even than the gap for blacks (25.2 percentage points).

These figures suggest that Hispanics confront significant barriers to homeownership, with gaps relative to whites that are even slightly larger than the homeownership gap among blacks. This gap has also been persistent. Despite the homeownership gains made by Hispanics during the 1990s, the homeownership gap in 2000 was even larger than in 1980. While the gap has narrowed some since 2000, it was still 26.0 percentage points in the fourth quarter of 2005 according to data from the CPS. This trend raises a critical question: what factors contribute to this persistently large gap? The literature on homeownership rates and gaps is extensive, yet research has only recently focused on Hispanic homeownership rates and gaps in particular. That literature suggests that much of this gap – although by no means all – is related to differences between non-Hispanic white and Hispanic socioeconomic characteristics and place of residence. The following section examines these factors.

Factors Contributing to Homeownership Gaps

The literature on homeownership gaps identifies several demographic, socioeconomic, and geographic factors that are related to homeownership. Age, income, level of education, net worth, household type, mobility, nativity, country of origin, English proficiency, degree of social integration (citizenship status and years in the U.S.), and place of residence are important factors that help explain the gap in homeownership rates between Hispanics and non-Hispanic whites. Each of these factors is discussed in turn.

The precise impact of these factors on homeownership is difficult to disentangle, since many of these factors are closely interrelated. For example, income and level of education tend to rise as age increases; an individual’s citizenship status is related to the number of years in the U.S; and household composition is likely associated with country of origin. Determining the independent effect of each of these factors has been the subject of recent studies and considerable debate.

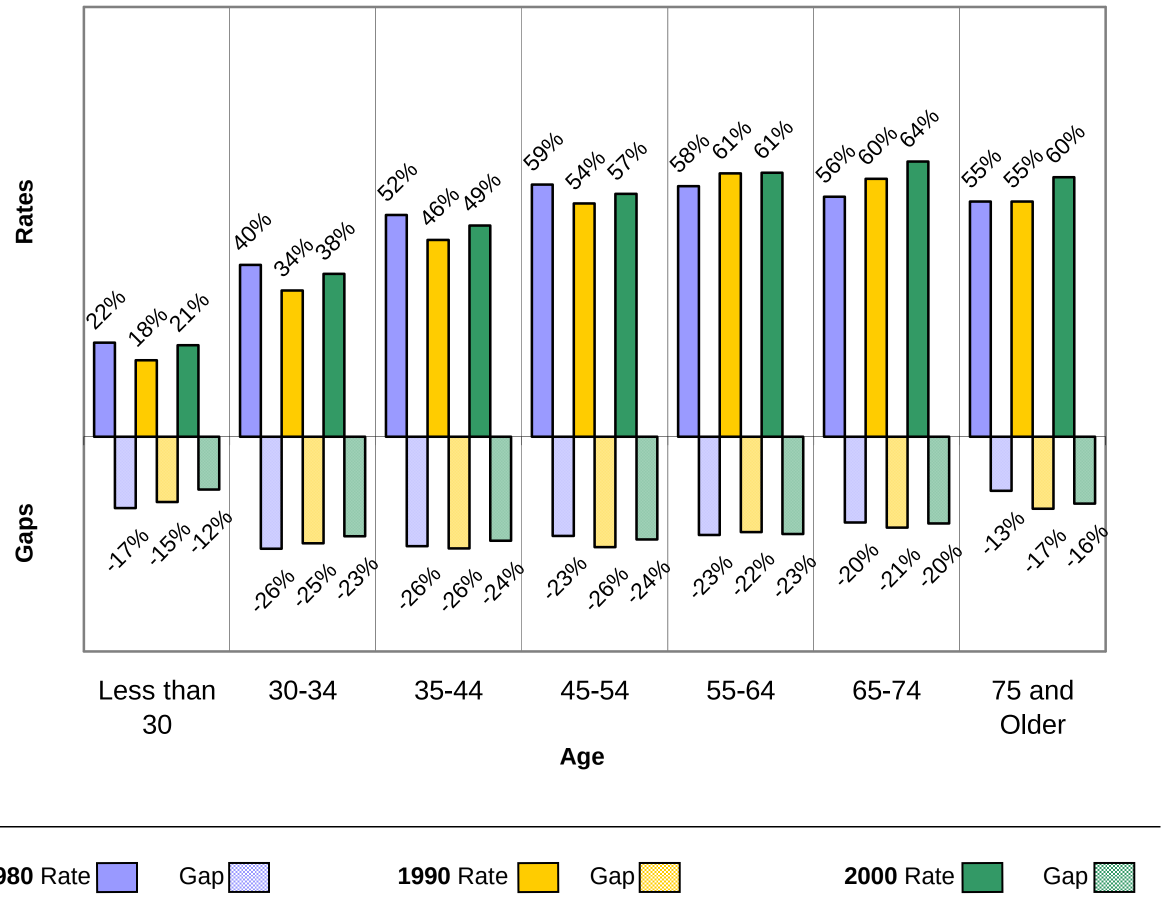
Age

Exhibit 2-2 presents the Hispanic homeownership rates and gaps by age of the household head for 1980-2000. As demonstrated in the exhibit, homeownership rates rise considerably with age but decline slightly among the elderly. In all years, the largest jumps in homeownership rates occur as households age from the under 30 to the 30-34 age group, presumably reflecting many first-time homebuyers in their early 30s.

In 1980, the proportion of Hispanic homeowners rose steadily from 22 percent among the youngest households (under age 30) to 59 percent among the middle-aged households (45-54 age group). The homeownership rate declined gradually for older age groups to 55 percent among households age 75 or more. Within each age bracket, significant shifts occurred between 1980 and 2000. For all cohorts under age 55, rates of homeownership were highest in 1980, then dropped by 4 or more percentage points in 1990, and then rose again in 2000, but not yet to 1980 levels. Meanwhile, rates for those over 55 stayed the same or rose after 1980.

Exhibit 2-2

Hispanic Homeownership Rates and Gaps,[1] by Age of Household Head, 1980-2000



[1] Homeownership gaps for Hispanic households are calculated in relation to the homeownership rate of non-Hispanic whites.

Sources: U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 PUMS 1% sample.

Homeownership gaps narrowed with age. In all years, the gap between the homeownership rates of Hispanics and non-Hispanic whites was lowest among the youngest and oldest age groups. Within most of the age groups, there was minimal change in the gaps between 1980-2000. However, among households headed by a person 30 years or younger, the gap shrank by 5 percentage points despite an overall drop in the homeownership rate of this group of 1 percentage point between 1980 and 2000.

In addition, the gap grew among the 75 or older cohort, despite a 5 percentage point rise in the homeownership rate among these older Hispanics, because older whites had increased their homeownership rate even more during the same period.

These data confirm two important trends that have been identified in the literature: (1) age is positively associated with homeownership and (2) there is an age cohort effect on homeownership rates.

The association between age and homeownership is two-fold. The investment demand for housing is lower among younger households because they are more mobile than their older counterparts and the high transaction costs of moving makes homeownership less attractive (Herbert *et al.*, 2005). Thus, mobile, younger households will choose to rent rather than purchase a home. In addition, there is a strong positive association between age and income – on average, incomes increase with age – and income, in turn, is positively associated with homeownership. As a result of both factors, the demand for housing is likely to increase with age.

Research has also found an independent effect of age on homeownership, after controlling for income and other socioeconomic characteristics (Borjas, 2002; Callis, 2003; Coulson, 1999; Flippen, 2001a; Krivo, 1986 and 1995; Masnick, 1997; Myers, 1998a and 1998b; and Painter *et al.*, 2001).

The effect of age on homeownership is particularly important for understanding homeownership gaps between Hispanics and non-Hispanic whites because of the younger age structure of the Hispanic population. In 2000, the percentage of Hispanic households under age 35 (35.2 percent) was nearly twice that of non-Hispanic whites (19.6 percent). In addition, the percentage of non-Hispanic whites age 65 and older was much larger (24.2 percent), compared to only 10.3 percent of Hispanics. The lower share of non-Hispanic white households in young age groups and higher share in older age groups contribute to the comparatively higher homeownership rate among non-Hispanic whites. If Hispanics had the same age distribution as non-Hispanic white households, their homeownership rates would increase by 7.4 percentage points, all else being equal.

In addition to the effect of age on homeownership rates, there is an age cohort effect on homeownership. For example, the 45-54 age cohort in 1980 continued to evince the highest homeownership rate as the cohort aged over the next twenty years. In 1990, the 55-64 age group demonstrated the highest homeownership rate, and ten years later the same age cohort (now 65-74) also had the highest rate. Similarly, a recent study found that younger cohorts track across successive age groups with persistently lower homeownership rates (Myers, 1998b). This study showed that the decline in homeownership rates among the 34-44 age cohort in 1990 was driven by the lower homeownership rates carried into that age bracket by cohorts who were age 25-34 in 1980.

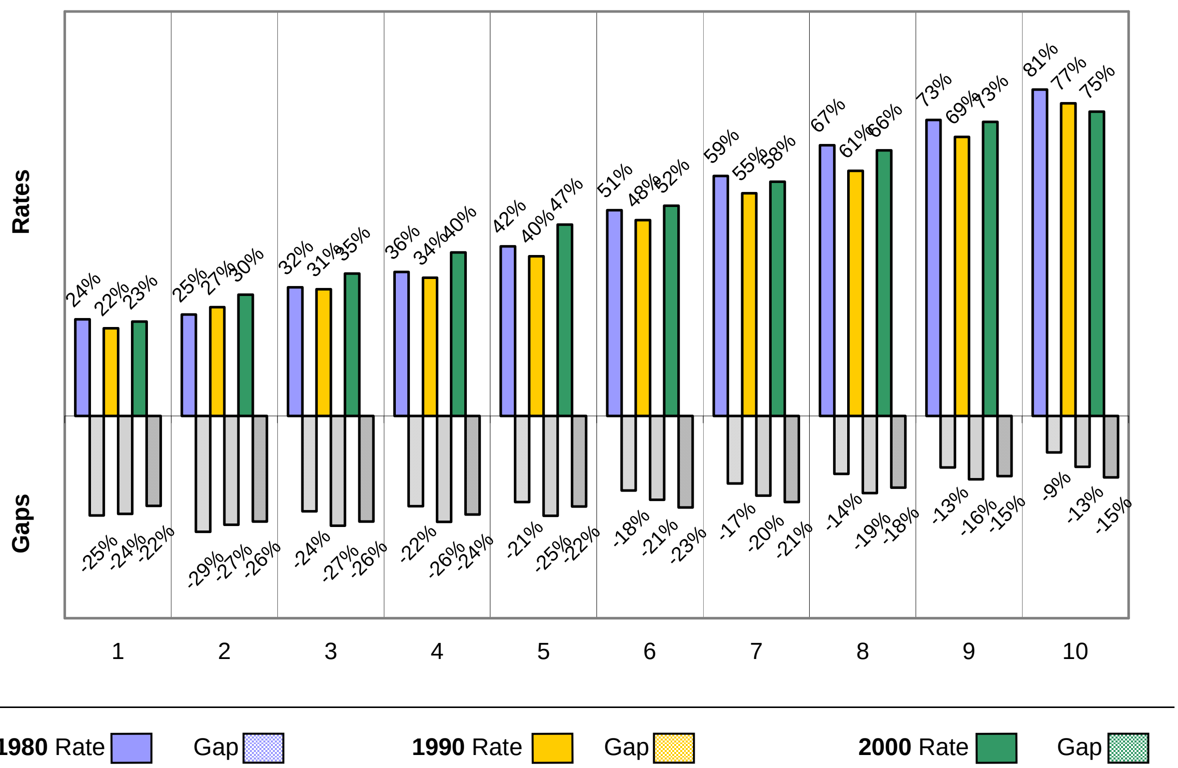
The literature on age cohort effects often nests age (or birth) cohorts within immigration cohorts, or year of entry into the U.S. The dual cohort approach is applied to the study of immigrant populations to distinguish between the impact of aging, which may differ by age cohorts, and the effect of longer residency in the U.S, which is an assimilation effect. For example, a recent study indicated that the effect of age on homeownership among Hispanic immigrants is weakened (and almost eliminated) by controlling for immigration cohorts (Masnick, 1997). The effect of longer residency (or assimilation effect) will be discussed in more detail below.

Income

Exhibit 2-3 shows Hispanic homeownership rates and gaps by income deciles for 1980, 1990, and 2000. (Appendix A presents the lower and upper boundaries to each income decile in dollar amounts foe each census year.) Higher income deciles have higher homeownership rates and lower homeownership gaps. In 1980, homeownership rates were dramatically higher in higher income deciles, with the largest difference (9 percentage points) occurring between the 5th and 6th income deciles. Rates differed substantially between the lowest- and highest-income households, ranging from 24 to 81 percent. This nearly 57 percentage point disparity in homeownership rates by income was larger in 1980 than in any other year. The same pattern was observed in 1990, although the disparity in homeownership rates between lowest- and highest-income households was slightly less (56 percentage points). Homeownership rates rose more evenly across all income groups during the 1990s. In 2000, Hispanic households in the 2nd through the 7th income deciles experienced a 5-7 percentage point increase in homeownership rates.

Exhibit 2-3

Hispanic Homeownership Rates and Gaps[1], by Income, 1980-2000



[1] Homeownership gaps are calculated in relation to the homeownership rate of non-Hispanic whites.

Sources: U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.

While homeownership rates fell for many income groups during the 1980s, increases during the 1990s offset these earlier declines. Overall, from 1980 to 2000, low- to moderate-income households (deciles 2 through 6) experienced increases in homeownership rates, ranging from one to five percentage points. The smallest gain occurred among households in the 6th decile, and the largest gain was realized by households in the 5th decile. High-income households (deciles 7 through 10) fared less favorably. Homeownership rates decreased by as much as 6 percentage points among the highest-income households between 1980 and 2000. However, the difference in Hispanic homeownership rates between the lowest- and highest-income deciles changed little between 1980 and 2000.

Exhibit 2-3 also demonstrates that homeownership gaps for Hispanic households compared with non-Hispanic white households declined considerably at high levels of household income. In 1980, the gap ranged from 25 percentage points among the poorest households to 9 percentage points among the highest income households. The largest difference (5 percentage points) occurred between the 2nd and 3rd deciles, and homeownership gaps declined by nearly 2 percentage points with each increase in income decile, on average. Similarly, in 1990 the homeownership gap ranged from 24 percentage points among the poorest households to 13 percentage points among households with the highest incomes. The largest decline (4 percentage points) occurred between the 5th and 6th deciles. Homeownership gaps also were lower in 2000 at higher levels of household income, although the difference was much less dramatic, 7 percentage points between the lowest and highest income groups.

Despite decreases in homeownership gaps within each decennial year, gaps widened within nearly each income decile throughout the twenty-year period—especially among moderate- and high-income households. For example, from 1980 to 2000 the homeownership gap increased by 4, 5, 3, 2, and 6 percentage points across the 6th to 10th income deciles, respectively. Only households with the very lowest incomes (deciles 1 and 2) experienced net decreases (approximately 3 percentage points per decile) in homeownership gaps during the twenty-year period.

These patterns are consistent with previous research that found an independent effect of income on homeownership, especially among Hispanics, even after controlling for numerous socio-economic characteristics (Krivo, 1986, 1995; Myers, 1998a; and Painter *et al*., 2001).[12] One study conducted a series of simulations that eliminated the income and educational differentials between native Hispanics and non-Hispanic whites to estimate the effect on homeownership rates and gaps among a sample of recent mover households from the decennial census in 1980 and 1990 (Painter *et al*., 2001). The simulations using 1980 data suggested that nearly all of the homeownership gap was accounted for by these two characteristics, while in 1990 they accounted for 11 percentage points out of a total gap of 16 percentage points. However, the study also found that in 1990 among Hispanic immigrants from the early 1980s a sizeable homeownership gap remained even after controlling for education and income differences with whites. Another study nested income within age cohorts and found a decreasing effect of income across successively older birth cohorts. This finding suggests that younger adults have less time to accumulate wealth to finance a home purchase and, therefore, are more reliant on current income. In addition, current income is likely to have a minimal direct effect

12 In addition, Flippen (2001) found that both homeownership rates and housing equity among Hispanic households increase with increased income.

on homeownership among older persons because they likely purchased their home when they were younger (Myers, 1998b).

Household income varies significantly across metropolitan areas. Areas with high costs of living and expensive housing markets generally have higher median household incomes. By contrast, more affordable areas often have lower median household incomes. The relationship between household income and median housing value by metropolitan area has clear implications for homeownership opportunities. As discussed below, Hispanic households are concentrated disproportionately in expensive housing markets and also have lower median household incomes when compared to non-Hispanic whites. This geographic distribution of the Hispanic population is an important factor in explaining Hispanic homeownership rates and gaps and is addressed in more detail below.

Level of Education

Exhibit 2-4 displays Hispanic homeownership rates and gaps by education level for 1980, 1990, and 2000. Overall, homeownership rates are considerably higher and gaps smaller as education level increases. In 1980, the homeownership rate ranged from 41 percent among households with less than a high school education to 54 percent among college-educated households. The rate similarly rose in 1990 from 37 percent of households with less than a high school education to 58 percent of households with advanced degrees. The greatest difference among rates by level of education occurred in 2000. There was a 22 percentage-point difference in homeownership rates between poorly educated households (40.4 percent) and highly educated households (62 percent).

Exhibit 2-4

Hispanic Homeownership Rates and Gaps[1], by Level of Education, 1980-2000

	1980[2]		1990		2000	
Level of Education	**Rate**	**Gap**	**Rate**	**Gap**	**Rate**	**Gap**
Less than High School	40.8%	-29.3%	37.4%	-31.4%	40.4%	-28.1%
High school graduate, or GED	45.1%	-24.1%	42.5%	-27.6%	45.3%	-27.6%
Some college, no degree	49.6%	-15.4%	45.8%	-19.8%	49.9%	-20.3%
Associate degree			51.2%	-16.2%	53.8%	-18.8%
Bachelors degree	54.3%	-16.0%	52.0%	-16.7%	55.4%	-18.2%
Graduate degree			57.8%	-18.0%	62.0%	-17.4%
Total	44.1%	-24.9%	42.1%	-26.9%	45.6%	-26.8%

[1] Homeownership gaps are calculated in relation to the homeownership rate of non-Hispanic whites.

[2] The comparability between the 1980 Census and the 1990 and 2000 Census was limited. In 1980, the response codes indicated highest grade of school attended or completed by the respondent. Persons who completed high school by an equivalence test (GED) were instructed to record "12th grade." We coded the "12th grade" as a "High School graduate or GED," which may include persons who attended the 12th grade but did not finish. In addition, we coded "4+ years of college" as "Bachelors degree."

Sources: *U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 PUMS 1% sample.*

Homeownership rates increased across every educational level from 1990 to 2000. For example, the rate for households with a master's degree or above increased 4 percentage points, from 57.8 to 62 percent; the rate for households with a bachelors degree increased 3 percentage points, from 52 to 55.4 percent; and the rate for households with a high school diploma or GED rose approximately 2 percentage points, from 42.5 to 45.3 percent. By contrast, homeownership rates declined during the 1980s across all the educational levels for which there is data. The decline was greatest among households with less than a high school education (4 percentage points) and households who had not completed college (4 percentage points). The decline in homeownership rates was less severe among households with high school diplomas (2 percentage points) and college degrees (2 percentage points).

As Exhibit 2-4 also demonstrates, smaller homeownership gaps were associated with greater educational attainment. This pattern is most evident in 2000. The homeownership gap among households with less than a high school education was 28 percentage points, and declined successively by 0.5, 7.3, 1.5, 0.6, and 0.8 percentage points as educational levels increased. As a result, the smallest homeownership gaps occur among those with the highest educational attainment, but even among this group the gap was 17 percentage points. Also, gaps by educational level were higher in 2000 than in earlier decades for all but the least and most highly educated cohorts.

Homeownership gaps narrowed in 1980 and 1990 as educational level increased, particularly between households with a high school education and households with some college education. The gap among households who attended some college decreased by 8.7 and 7.3 percentage points in 1980 and 1990 when compared to households with a high school education. Surprisingly, homeownerships gaps widened slightly among households with college or advanced degrees.

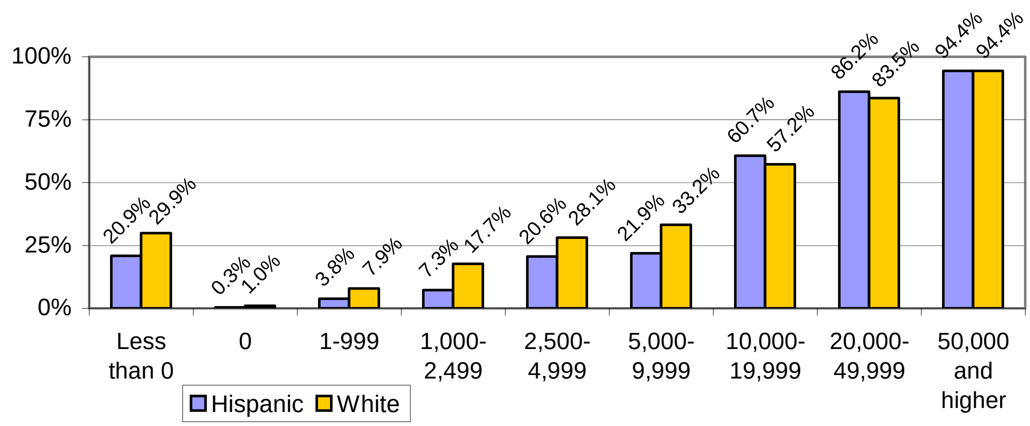
These trends are consistent with recent empirical work associating the likelihood of becoming a homeowner with educational status. The studies, however, also demonstrate that educational levels are positively correlated with other demographic characteristics, which are in turn positively associated with higher homeownership probabilities. As a result, the decline in homeownership gaps cannot be attributed solely to increases in educational level. To address this issue, researchers estimate statistical models (multivariate regression equations) that control for age, income, country of origin, and other characteristics, thereby isolating the independent impact of education on homeownership. These models suggest that the probability of homeownership among Hispanics is significantly lower (5 percentage points) for households without a high school diploma and significantly higher (3 percentage points) for college-educated households, even after controlling for numerous demographic characteristics (Painter *et al*., 2001). However, the effect of education on Hispanic homeownership is influenced by country of origin and birth cohort. For example, Krivo (1986) demonstrated that all Hispanic subpopulations experienced larger effects of education on homeownership than non-Hispanic whites, but the difference was statistically significant only among Mexicans and Cubans. Also, Myers *et al*., (1998) interacted educational attainment with birth cohorts to show that the effect of not completing high school among native-born males of Mexican origin is less detrimental on achieving homeownership among older cohorts (ages 55-74) than younger cohorts (ages 15-34). This finding suggests that the effect of educational attainment on achieving homeownership will vary by birth cohort.

Net Worth

Exhibit 2-5 displays homeownership rates by household net worth[13] for 2000. As the upward trend suggests, higher net worth is associated with higher homeownership rates regardless of ethnicity. For both Hispanics and non-Hispanic whites, the homeownership rate increased dramatically from about 1 percent among households with zero net worth to over 94 percent among households with $50,000 or more in net worth. Among Hispanic households, the largest percentage point increase (nearly 39 percentage points) occurred between households with $5,000-$9,999 and $10,000-$19,999 in net worth. The largest increase (26 percentage points) in homeownership rates among non-Hispanic whites occurred between households with $10,000-$19,999 and $20,000-49,999 in net worth.

Exhibit 2-5

Hispanic and Non-Hispanic White Homeownership Rates, by Wealth[1], 2000



[1] Homeownership gaps are calculated in relation to the homeownership rate of non-Hispanic whites. Net worth is reported in 2000 dollars.

Source: *U.S. Department of Commerce, Bureau of the Census. November 1999-February 2000. Survey of Income and Program Participation (SIPP) 1996 Panel (Wave 12 Core Microdata File). ICPSR version. Washington, DC: U.S. Dept. of Commerce, Bureau of the Census (producer), 1999. Ann Arbor, MI: Inter-University Consortium for Political and Social Research (distributor), July 2002.*

Homeownership gaps fluctuated across the range of net wealth categories. The largest Hispanic-White homeownership gap occurred between $1,000 and $10,000. Hispanics relative disadvantage among these low-wealth levels may reflect their higher concentration in high cost markets in the West

[13] Net worth was calculated as the difference between the sum of the market value of assets owned by each member of a household and unsecured liabilities associated with each household member. Assets included savings accounts, equity in a home, mutual funds, vehicle ownership, 401K plans, and other financial assets. Liabilities included a variety of unsecured liabilities (e.g., credit card debt, medical bills, and educational loans).

and Northeast. Interestingly, Hispanic homeownership rates surpass that of non-Hispanic whites by 3 percentage points among households with $10,000 to $19,999 in net worth. The 3 percentage-point gap continued among Hispanic households with $20,000 to $49,999 in net worth, and reached parity among the wealthiest households. This finding suggests that increased net worth negates barriers to homeownership among Hispanic households.

However, it is important to note the share of both Hispanics and non-Hispanic whites within each of these net worth categories to properly interpret these patterns. Exhibit 2-6 presents the number and proportion of households in each net worth category for Hispanics and non-Hispanic whites. Both Hispanics and non-Hispanic whites are unevenly distributed across the net worth categories. A much larger share of Hispanics (46 percent) was found within the lower net worth categories (less than $5,000) than non-Hispanic whites (21 percent) and only one-quarter of Hispanic households had a net worth of $50,000 or more. By contrast, a smaller share of non-Hispanic whites had a lower net worth and over half (56 percent) were clustered into the $50,000 or more category. Moreover, nearly three-quarters (72 percent) of all non-Hispanic white homeowners were in the highest net worth category. The clustering of non-Hispanic white homeowners effectively reduced the number of homeowners in other categories and likely contributed to the lower homeownership rates in relation to Hispanics.

Exhibit 2-6

Number and Proportion of Hispanic and non-Hispanic White Households, by Net Worth, 2000

Level of Net Worth	Hispanic: Number of Households	Hispanic: Percent	Non-Hispanic White: Number of Households	Non-Hispanic White: Percent
Less than 0	1,767,095	19.1%	8,653,922	10.9%
0	941,463	10.2%	1,440,490	1.8%
1-999	594,083	6.4%	2,154,112	2.7%
1,000-2,499	491,482	5.3%	1,944,273	2.4%
2,500-4,999	486,800	5.3%	2,190,616	2.8%
5,000-9,999	640,165	6.9%	3,988,688	5.0%
10,000-19,999	612,367	6.6%	4,706,392	5.9%
20,000-49,999	1,357,106	14.7%	9,968,424	12.5%
50,000 and higher	2,350,814	25.4%	44,539,335	56.0%
Total	9,241,376	100.0%	79,586,252	100.0%

Source: *U.S. Department of Commerce, Bureau of the Census. November 1999-February 2000. Survey of Income and Program Participation (SIPP) 1996 Panel (Wave 12 Core Microdata File). ICPSR version. Washington, DC: U.S. Dept. of Commerce, Bureau of the Census (producer), 1999. Ann Arbor, MI: Inter-University Consortium for Political and Social Research (distributor), July 2002.*

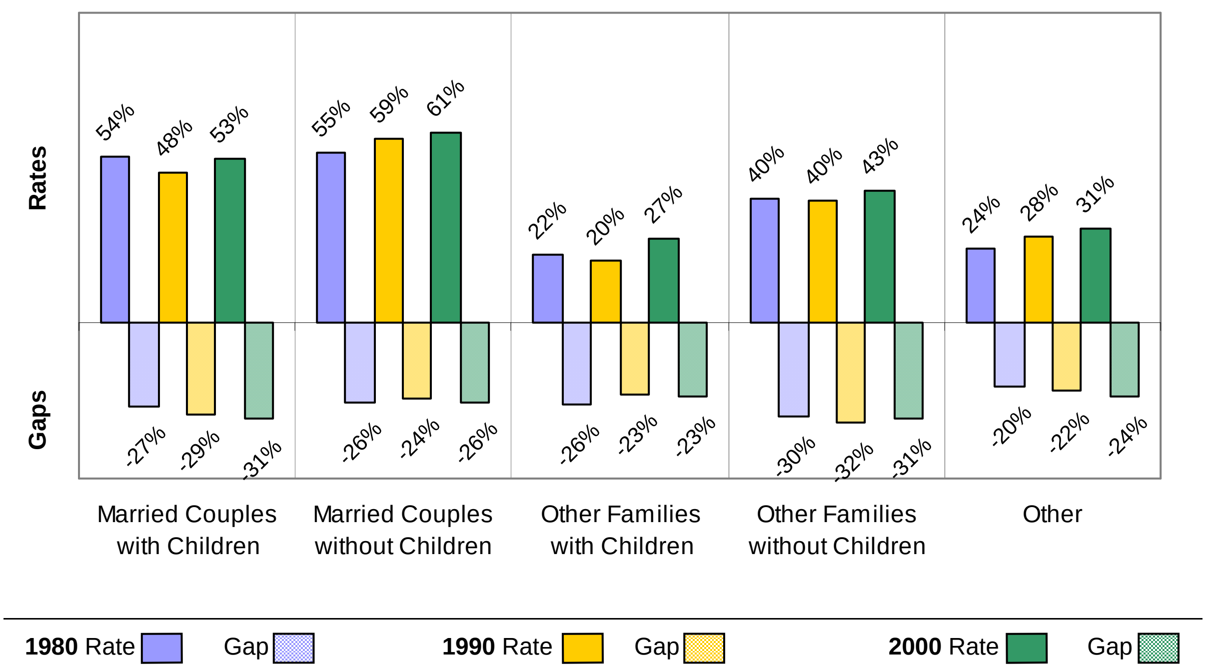
Net worth (and wealth) is frequently discussed in the literature as a major barrier to homeownership among all households (Collins *et al*., 2001; Gyourko *et al*., 1999; Quercia *et al*., 1998; and Savage, 1999), especially low-income households (Haurin *et al*., 1996). In one study, an estimated one-third of renters in 1995 could not afford a house selling for half of the regional median housing price because they lacked the wealth to cover down payment and/or closing costs. Two-thirds of renters could not afford to buy a modestly priced house because of both inadequate wealth (limiting their ability to cover closing costs and down payments) and insufficient income (limiting their ability to afford the mortgage payments) (Savage, 1999). Low-income renters are particularly at a disadvantage since most of their resources are used to cover basic needs, and thus are unlikely to accumulate cash to cover down payment and closing costs. Low-income renters are also less likely to receive down payment assistance from family members than other households because of the intergenerational nature of poverty (Englehardt, 1998).

Household Type

Exhibit 2-7 presents the Hispanic homeownership rates and gaps by household type from 1980 to 2000. Throughout the two decades homeownership rates were higher for married couples with and without children than any other type of Hispanic household. The presence of children consistently lowered the homeownership rate within all household types. Also, other families with children had the lowest homeownership rates among all the household types, and other Hispanic families without children displayed the largest homeownership gap.

Exhibit 2-7

Hispanic Homeownership Rates and Gaps[1], by Household Type, 1980-2000



[1] Homeownership gaps are calculated in relation to the homeownership rate of non-Hispanic whites.

Sources: U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.

Hispanic married couples without children had the highest rate of homeownership during the twenty-year period and their rate steadily increased with each decennial census. Their homeownership rates increased from 55 percent in 1980 to 61 percent in 2000. Hispanic married couples with children experienced a decline in homeownership rates from 1980 to 1990 (from 54 percent to 48 percent), but rebounded in 2000 to 53 percent. The homeownership rates of other families with children and those without children lagged far behind their married counterparts. For example, in 2000 the differential in homeownership rates between married couples with children and other families with children was nearly 26 percentage points, and the differential between married couples without children and other families without children was nearly 19 percentage points.

Homeownership gaps fluctuated across most of these household types. Between 1980 and 2000, homeownership gaps among married couples with children increased moderately (4 percentage points); gaps among married couples without children decreased slightly (0.3 percentage points); and gaps among other families without children increased somewhat (0.8 percentage points). Only other families with children experienced a sizable decline in homeownership gaps (3 percentage points) during the twenty-year period. Interestingly, homeownership gaps were at times higher among married couples than any other household type, which suggests that the positive effect of marriage on homeownership is greater among non-Hispanic whites.

Nevertheless, households composed of married couples have the best chance of being homeowners (Callis, 2003; Coulson, 1999; Krivo, 1986, 1995; Flippen, 2001a; Myers and Lee, 1998; and Painter *et al*., 2001). Recent studies suggest that marriage is the strongest determinant of homeownership among persons of any racial and ethnic background (Myers and Lee, 1998) and is important even after accounting for immigrant characteristics (such as citizenship status) (Callis, 2003).

Mobility

As discussed in Chapter 1, given the high transaction costs associated with buying and selling a home, households that expect to move frequently will be less attracted to homeownership. One explanation for low Hispanic homeownership rates relative to whites might be that they are more likely to move than whites and so homeownership is less appealing. An examination of household mobility between 2002 and 2003 by the U.S. Census Bureau (Schachter, 2004) does find that overall Hispanics are much more likely to move than whites. But the likelihood of moving in a given year is strongly associated with household age, marital status, education level, and income, and may also be affected by race-ethnicity and nativity status.

When mobility rates are analyzed using multivariate regression techniques, Schacter finds that households that are renters, younger (age 18 to 34), have higher levels of education, have incomes below the poverty level, and are unmarried and without children are more likely to move. The study finds that after controlling for these factors there is no statistically significant association between being Hispanic or foreign born and the likelihood of moving. In short, after taking into account differences between non-Hispanic whites and Hispanics in terms of age, income, education, and marital status, neither Hispanic or immigrant status further depress homeownership propensities due to higher expected mobility of these groups.

Nativity

Exhibit 2-8 shows Hispanic homeownership rates and gaps by nativity[14] from 1980 to 2000. As shown, homeownership rates are about 10 percentage points higher among native-born Hispanics than foreign-born Hispanics in each decennial year. Homeownership rates decreased during the 1980s for both native- and foreign-born Hispanics by approximately 1 and 2 percentage points, but grew during the 1990s. The increase in homeownership among foreign-born Hispanics was somewhat faster during this period, so that the gap with native born Hispanics narrowed by two percentage points. By 2000, nearly 50 percent of native-born Hispanics and 42 percent of foreign-born Hispanics were homeowners.

Exhibit 2-8 also shows homeownership gaps for both native and foreign-born Hispanics compared to native and foreign-born whites. This comparison illustrates the extent to which overall Hispanic homeownership gaps are related to the high share of immigrants among Hispanics. As shown, while gaps for both native- and foreign-born Hispanics is lower than the gap for all Hispanics, both groups have similar, fairly large gaps. In addition, these gaps changed little during the twenty-year period. The gap among native-born Hispanics widened slightly from approximately 22 percentage points in 1980 to 23 percentage points in 2000. The gap among foreign-born Hispanics, however, decreased from nearly 24 percentage points in 1980 to 22 percentage points in 2000.

Exhibit 2-8

Hispanic Homeownership Rates and Gaps[1], by Nativity, 1980-2000

Nativity	1980[2] Rate	1980[2] Gap	1990 Rate	1990 Gap	2000 Rate	2000 Gap
Native born	47.5%	-21.8%	46.6%	-22.8%	49.7%	-23.2%
Foreign born	38.7%	-23.5%	37.0%	-26.0%	42.1%	-21.7%
Total	44.1%	-24.9%	42.1%	-26.9%	45.6%	-26.8%

[1] Homeownership gaps are calculated in relation to the homeownership rate of native and foreign non-Hispanic whites.

Sources: *U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.*

Few studies have examined the disparity in homeownership rates among native- and foreign-born households. A recent study focused on homeownership in the immigrant population and surprisingly found that differences in numerous socioeconomic characteristics between natives and immigrants explained relatively little of the gap in homeownership rates (Borjas, 2002). The study demonstrated that differences in the residential location choices made by natives and immigrants played a key role in explaining the homeownership gap between these groups. In 1980, almost one-half of the homeownership gap between natives and immigrants was explained by differences in location. This influence, however, diminished over time and by 2000 one-third of the difference in homeownership

[14] A native born head of household does not include persons born in U.S. outlying areas (e.g., Puerto Rico) or persons born abroad to U.S. parents.

gaps between natives and immigrants was attributed to differences in location. This evidence suggests that recent immigrants are moving from the more traditional "gateway cities" (e.g., Los Angeles, Chicago, New York and Miami) to other locations throughout the U.S. The impact of residential location on homeownership is discussed in more detail below.

Despite this descriptive analysis of Census data, nativity has not been found to be a critical variable in predicting homeownership among Hispanic households after controlling for numerous socio-economic characteristics. The impact of nativity on homeownership is weakened by other characteristics, such as age cohorts, English language ability, and especially length of U.S. residence (Coulson, 1999; Flippen, 2001a; Krivo, 1995; Myers and Lee, 1998; and Painter *et al*., 2001). In one of these studies, the homeownership rates of immigrants residing in the U.S. the longest were indistinguishable from the rates of natives. Another study indicated that although foreign-born and Spanish speaking households were less like to be homeowners than natives, immigrants who have been in the U.S. longer are as likely to be homeowners as natives. Thus, the statistical importance of nativity gives way to other factors.

Country of Origin

Exhibit 2-9 presents Hispanic homeownership rates and gaps by country of origin from 1980 to 2000 for all groups of Hispanics—natives and immigrants. Dominicans and Puerto Ricans had the lowest homeownership rates and highest homeownership gaps, and Spaniards and Cubans consistently fared better than other Hispanic households. Homeownership rates among Mexican households were slightly higher than the total rate for all Hispanics during the twenty-year period, but changed little across decennial years.

In 1980, Puerto Rican households had the lowest homeownership rate (21 percent) and highest homeownership gap (48 percentage points), compared to Cuban (44 percent; 25 percentage points), Mexican (50 percent; 19 percentage points) and other Hispanic households (46 percent; 24 percentage points). The Puerto Rican homeownership rate increased considerably (13 percentage points) during the twenty-year period and peaked at 34 percent in 2000. In 1990, the Census expanded the number of response codes to include numerous nationalities and revealed an extremely low homeownership rate (13 percent) and large homeownership gap (56 percentage points) among Dominican households. Their rate also improved somewhat during the decade, but Dominican households in 2000 continued to have the lowest rate (20 percent) and largest gap (52 percentage points) among Hispanic households.

By contrast, Spaniards and Cubans had the highest homeownership rates in 1990 (58 and 51 percent) and among the lowest gaps (11 and 18 percentage points). The rate among Spaniards increased during the 1990s. In 2000, 60 percent of Spanish households were homeowners, compared to 72 percent of non-Hispanic white households (only a 12 percentage-point gap in homeownership rates). The Cuban homeownership rate increased during the decade by 7 percentage points to nearly 58 percent and their gap declined to 15 percentage points. Homeownership rates among Mexicans remained nearly unchanged between 1980 (50 percent) and 2000 (48 percent), although the homeownership gap increased by 5 percentage points (from 19 to 24 percentage points).

Exhibit 2-9

Hispanic Homeownership Rates and Gaps[1], by Country of Origin, 1980-2000

Country of Origin	1980[2] Rate	1980[2] Gap	1990 Rate	1990 Gap	2000 Rate	2000 Gap
Mexican	49.6%	-19.4%	46.8%	-22.3%	48.4%	-24.0%
Puerto Rican	21.3%	-47.7%	25.3%	-43.8%	34.4%	-38.1%
Cuban	43.8%	-25.2%	50.8%	-18.3%	57.7%	-14.8%
Dominican			13.0%	-56.1%	20.2%	-52.3%
Spaniard/ Spanish			58.3%	-10.8%	60.3%	-12.1%
Central American			23.2%	-45.9%	31.5%	-40.9%
South American			35.7%	-33.4%	41.3%	-31.2%
Other Spanish, Hispanic, Latino[3]	45.5%	-23.5%	49.3%	-19.8%	50.4%	-22.0%
All Hispanics	**44.1%**	**-24.9%**	**42.1%**	**-27.0%**	**45.6%**	**-26.8%**

[1] Homeownership gaps are calculated in relation to the homeownership rate of non-Hispanic whites.

[2] The response categories in the 1980 Census had limited comparability with the 1990 and 2000 Census.

[3] The 1990 Census asked respondents to record whether they were of Spanish/Hispanic origin and listed five response categories: not of Hispanic origin; Mexican, Mexican-American, Chicano; Puerto Rican; Cuban; and other Spanish/Hispanic. Respondents were also allowed to write-in a place of origin not listed on the form. Write-in responses were coded as either the country specified by the respondent, "South American" or "Central American" when the respondent wrote-in these exact responses, or "other." The 2000 Census also provided five, similar response categories and allowed for write-in responses. However, infrequent responses were coded as "Other Central American," "Other South American," or "Other Spanish or Latino," rather than as a specific country.

Sources: *U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.*

Trends in homeownership differed considerably by excluding native Hispanics and limiting the Hispanic population to Hispanic immigrants.[15] Exhibit 2-10 displays homeownership rates and gaps for Hispanic immigrants by country of origin from 1980 to 2000. Gaps are calculated in relation to all non-Hispanic immigrants.[16] As the exhibit suggests, from 1980 to 2000 rates among all Hispanic immigrants were about 6, 7 and 4 percentage points lower, respectively, than rates among all Hispanics (as shown in Exhibit 2-9) in each decennial year. With few exceptions, Hispanic immigrants from each country had considerably lower homeownership rates in each decennial year compared to their total populations. Nonetheless, homeownership rates increased for all Hispanic immigrants during the twenty-year period.

[15] An immigrant household is defined as a foreign-born head of household, which includes persons born in U.S. outlying areas (e.g., Puerto Rico, Guam, U.S. Virgin Islands, American Samoa, and other U.S. possessions) and persons born abroad to U.S. parents.

[16] From 1980 to 2000, the non-Hispanic immigrant homeownership rate was 58.2, 56.1, and 55.5 percent, respectively.

Exhibit 2-10

Homeownership Rates and Gaps among Immigrant[1] Hispanics, by Country of Origin, 1980-2000

Country of Origin	1980[2] Rate	1980[2] Gap	1990 Rate	1990 Gap	2000 Rate	2000 Gap
Mexican	40.8%	-17.4%	38.5%	-17.6%	43.7%	-11.8%
Puerto Rican	11.6%	-46.6%	25.0%	-31.1%	34.9%	-20.6%
Cuban	44.0%	-14.2%	51.6%	-4.5%	58.0%	+2.5%
Dominican			12.5%	-43.6%	19.8%	-35.7%
Spaniard/ Spanish			52.0%	-4.1%	56.0%	+0.5%
Central American			22.2%	-33.9%	30.9%	-24.6%
South American			35.7%	-20.4%	41.5%	-14.0%
Other Spanish/Hispanic/Latino[3]	32.8%	-25.4%	39.8%	-16.3%	39.9%	-15.6%
All Hispanic Immigrants	**38.6%**	**-19.6%**	**35.0%**	**-21.1%**	**41.2%**	**-14.3%**

[1] Homeownership gaps are calculated in relation to the homeownership rate of all non-Hispanic immigrants. From 1980 to 2000, the non-Hispanic immigrant homeownership rate was 58.2, 56.1, and 55.5 percent, respectively. An immigrant household is define as a foreign-born head of household, which includes persons born in U.S. outlying areas and born abroad to U.S. parents.

[2] The response categories in the 1980 Census had limited comparability with the 1990 and 2000 Census.

[3] The 1990 Census asked respondents to record whether they were of Spanish/Hispanic origin and listed five response categories: not of Hispanic origin; Mexican, Mexican-American, Chicano; Puerto Rican; Cuban; and other Spanish/Hispanic. Respondents were also allowed to write-in a place of origin not listed on the form. Write-in responses were coded as either the country specified by the respondent, "South American" or "Central American" when the respondent wrote-in these exact responses, or "other." The 2000 Census also provided five, similar response categories and allowed for write-in responses. However, infrequent responses were coded as "Other Central American," "Other South American," or "Other Spanish or Latino," rather than as a specific country.

Sources: U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.

In particular, from 1980 to 2000 the homeownership rate among Puerto Rican and Cuban immigrants increased sharply by 23 and 14 percentage points. The rates of Dominican, Central American, and South American immigrants also increased considerably, by 7, 9, and 6 percentage points, respectively. The homeownership rate of Mexican and Spanish immigrants increased by 3 and 4 percentage points during this period. By 2000, Cuban and Spanish immigrants had the highest homeownership rates (58 and 56 percent) and Dominican immigrants had the lowest (20 percent) among the Hispanic immigrant subgroups.

Exhibit 2-10 also suggests that homeownership gaps between Hispanic immigrants and non-Hispanic immigrants were smaller than the gaps observed between all Hispanics and non-Hispanic whites. For example, the gap in 2000 between Mexican immigrants and non-Hispanic immigrants was about 12 percentage points, compared to 24 percentage points between Mexican households and non-Hispanic white households. Similar patterns were observed for Puerto Rican, Dominican, Central American, and South American immigrants. Moreover, Cuban and Spanish immigrants had higher homeownership rates than non-Hispanic immigrants. The homeownership rate among non-Hispanic immigrants lagged behind the Cuban and Spanish rates by nearly 3 and 1 percentage points.

Although not shown in Exhibit 2-10, the homeownership rate of Hispanic immigrants in 2000 was lower than the rate associated with the most common immigrants groups. The homeownership rates of immigrants from Europe (64 percent), East Asia[17] (51 percent), India (48 percent), the Middle East (52 percent), other Asian nations (54 percent), and Oceania[18] (51 percent) were much higher than the rate of households from Hispanic nations. Only immigrants from Africa (36 percent) had lower homeownership rates than Hispanics immigrants. Similar rate disparities were observed in 1990 and 1980, except African immigrants had slightly higher homeownership rates in 1990 (37 percent). These data suggest that Hispanics face more significant barriers to homeownership than other immigrant groups.

These patterns are supported by studies suggesting that country of origin is a key explanatory variable in predicting homeownership among Hispanic subpopulations (Borjas, 2002; Calis, 2003; Krivo, 1986, 1995; and Masnick, 1997). These studies underscore large differences in skills and economic performance across national origin groups. In one such study, the effect of numerous socio-economic characteristics was measured across several Hispanic subpopulations and non-Hispanic whites. The study found that household characteristics did not have the same association with homeownership across all Hispanic subgroups. For example, the effect of income and education was larger on Mexicans, the impact of marriage was larger on Puerto Ricans; and the presence of children was larger on Cubans, compared to other Hispanic subgroups. Another study demonstrated that the correlation between homeownership and citizenship (discussed in more detail below) was greatest among European and smallest among Mexicans, Dominicans, and Central Americans. Thus, the cumulative impact of the numerous socio-economic characteristics on homeownership will vary among households from differing countries of origin.

English Proficiency

Exhibit 2-11 presents Hispanic homeownership rates by English proficiency from 1980 to 2000. The data show that Hispanics who speak English "very well" or exclusively are nearly twice as likely to be homeowners as those who are less English proficient, across all decades. The difference in homeownership rates by language skill is sharpest among those who are less proficient. Nearly 10 percentage points separate those who do not speak English from those who speak it poorly. An average of 12 points separate Hispanics with poor language skills from those who speak English well. By comparison, the difference between those who speak well, very well or exclusively averages approximately 2 points.

The dip in homeownership up to 1990 is felt almost equally across all of the groups. Among all proficiency groups except for exclusive English speakers, the 2000 rate surpassed the 1980 rate.

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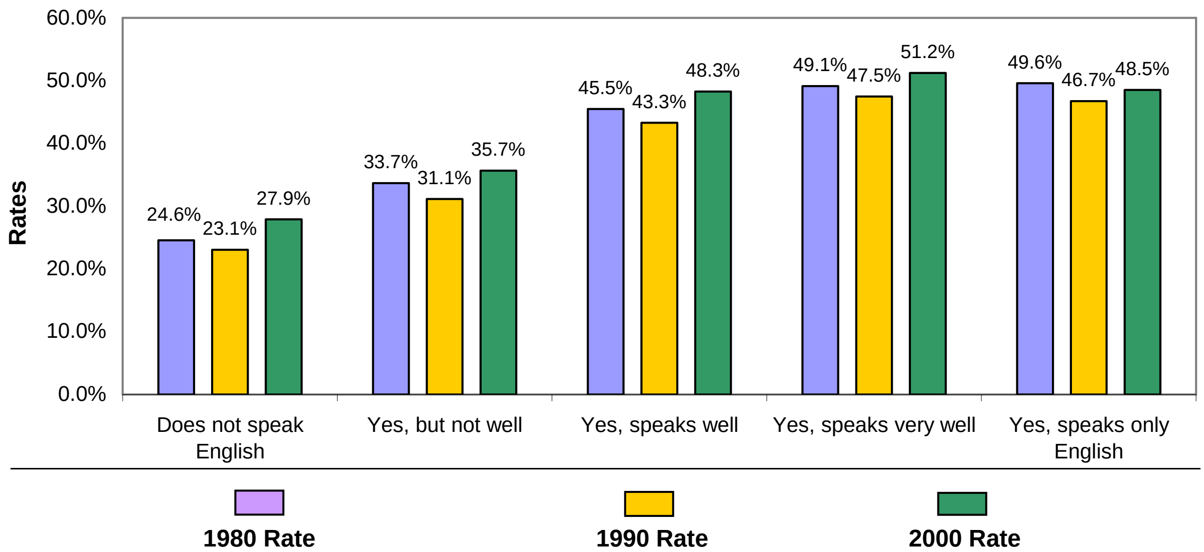
[17] Includes China, Japan, and both North and South Korea.

[18] Includes Australia, New Zealand, and numerous Pacific islands.

Exhibit 2-11

1980-2000 Homeownership Rates for Hispanics by English Speaking Skills



Sources: *U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.*

Degree of Social Integration

The degree of social integration is a function of two factors: citizenship status and the number of years in the U.S. These factors will be discussed in turn, followed by a cross tabulation of homeownership rates by citizenship status and years in the U.S.

Citizenship Status

Exhibit 2-12 presents the Hispanic homeownership rates and gaps by citizenship status from 1980 to 2000. Homeownership rates for Hispanic citizens are typically 20 percentage points higher than non-citizens. Naturalized citizens demonstrated higher homeownership rates than other groups. The tendency of naturalized citizens to have higher homeownership rates than native born Hispanics reflects the fact that naturalized citizens both tend to have characteristics that make homeownership more attractive and attainable. In addition, by definition naturalized citizens have made a decision to make the U.S. their permanent residence, which may also translate into a strong desire to put down permanent roots as homeowners. Among citizens, homeownership rates for Hispanics who were born in the United States or born abroad of U.S. parents were nearly identical throughout the twenty-year period, while the rate for naturalized citizens increased sharply during the 1990s. The Hispanic homeownership rate among naturalized citizens increased steadily from 51 percent in 1980 to 58 percent in 2000. By comparison, the rate among Hispanics born in the U.S. or born abroad of American parents improved only marginally, from 48 percent in 1980 to 50 percent in 2000. The homeownership rate among Hispanic non-citizens remained nearly unchanged and was consistently the lowest among all the groups throughout the twenty-year period. The rate among non-citizens was 32, 29, and 32 percent from 1980 to 2000, respectively.

Exhibit 2-12

Hispanic Homeownership Rates and Gaps[1], by Citizenship Status, 1980-2000

	1980		1990		2000	
Citizenship Status	**Rate**	**Gap**	**Rate**	**Gap**	**Rate**	**Gap**
U.S. citizen	48.2%	-21.1%	47.7%	-21.6%	52.2%	-20.7%
Born in the U.S.	47.5%	-21.8%	46.6%	-22.8%	49.7%	-23.2%
Born abroad of U.S. parents	47.5%	-8.0%	47.8%	-9.1%	49.7%	-12.8%
Naturalized citizen	50.9%	-15.9%	51.4%	-19.3%	58.0%	-15.2%
Not a U.S. citizen	31.5%	-17.6%	29.2%	-19.8%	31.9%	-16.5%
Total	44.1%	-24.9%	42.1%	-26.9%	45.6%	-26.8%

[1] Homeownership gaps are calculated in relation to the homeownership rate of non-Hispanic whites with the same citizenship status. Persons born in outlying U.S. territories (Guam, the U.S. Virgin Islands, the Northern Marianas) and the Commonwealth of Puerto Rico are U.S. citizens

Sources: *U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.*

Hispanic households born in the U.S. consistently evinced the highest homeownership gap, which widened slightly from 22 percentage points in 1980 to 23 percentage points in 2000. Interestingly, the size of the homeownership gap associated with U.S. born Hispanics was more than twice the size of the gap associated with Hispanics born abroad of U.S. parents. From 1980 to 2000, the gap among Hispanics born in the U.S. was 22, 23, and 23 percentage points, compared to 8, 9, and 13 percentage points among Hispanics born abroad of U.S. parents, respectively. Given the similarity in homeownership rates for these two groups, the smaller gap among those born abroad reflects the fact that Whites born abroad also have fairly low homeownership rates. Homeownership gaps among naturalized citizens and non-citizens were similar, varying by less than 2 percentage points within any decennial year. Gaps among these Hispanic groups ranged between 15 and 20 percentage points.

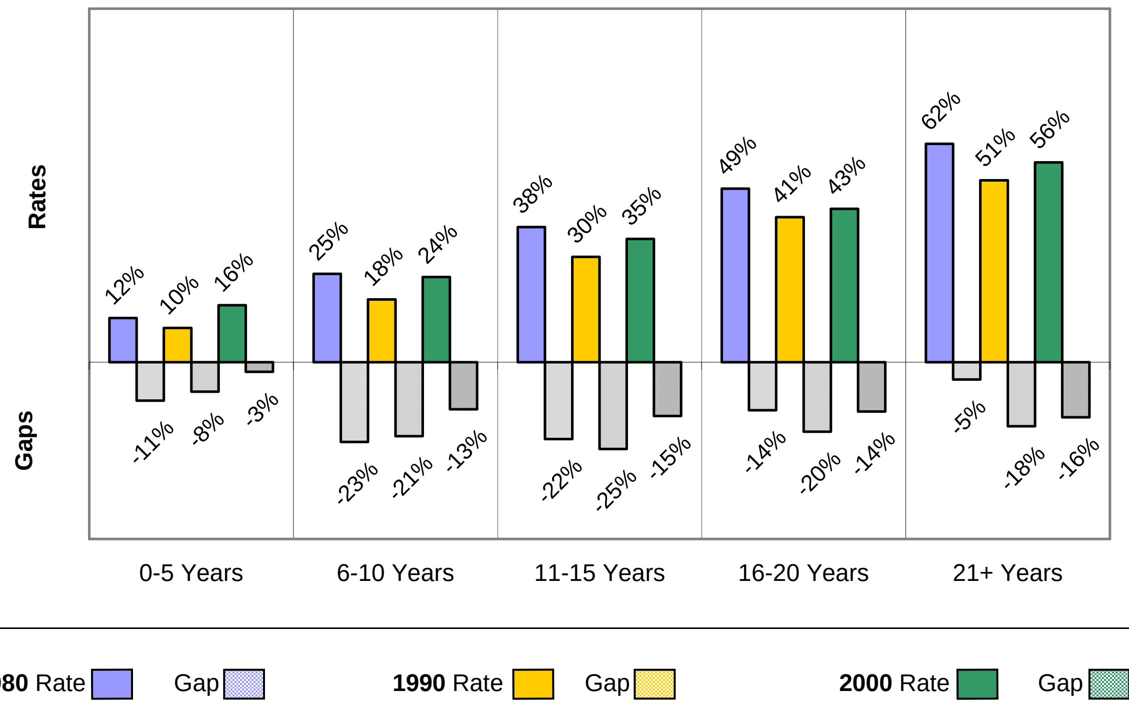
The research on the effect of citizenship on homeownership among all households supports these findings (Callis, 2003; Coulson, 1999; Masnick, 1997). In a descriptive analysis of Current Population Survey data, Callis (2003) found that in 2002 naturalized-citizen householders (of all origins) were more likely than natives to be homeowners in the Midwest, South, and West (but not in the Northeast or the total U.S.). Masnick (1997) indicated that among all foreign-born persons, citizens were exactly twice as likely as non-citizens to be homeowners, and the more recent the decade of arrival into the U.S. the greater the citizen's homeownership rate exceeds that of non-citizens. The effect of arrival cohorts on homeownership is discussed next.

Years in the U.S.

Exhibit 2-13 presents homeownership rates among Hispanic immigrant households, by the number of years in the U.S. from 1980 to 2000. Homeownership rates increased dramatically as time spent in the U.S. lengthens. In each decennial year, the rate was 40 percentage points or more lower for households who had been in the U.S. for less than 5 years compared with households who had been in living in the U.S. for 21 years or more. Homeownership rates increased steadily, and there was no clear threshold in the number of years spent in the U.S. that was associated with very large increases in rates. In addition, gaps narrowed in every decennial year except 2000.

Exhibit 2-13

Hispanic Homeownership Rates and Gaps[1], by Years in the United States, 1980-2000



[1] Homeownership gaps are calculated in relation to the homeownership rate of *non-Hispanic immigrants with the same number of years in the U.S.*

Sources: *U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.*

In 1980, the homeownership rate rose steadily from 12 percent among households living in the U.S. for 5 years or less to 62 percent among households living in the U.S. for 21 years or more. The 49 percentage-point increase was the largest increase observed across the three decennial years. In 1990, the rate similarly rose by nearly 42 percentage points and over half (51 percent) of households living in the U.S. for 21 years or more were homeowners. In 2000, only 16 percent of Hispanic immigrant households living in the U.S. for five years or less owned homes, while 61 percent of households in the country for 21 years or more were homeowners.

From 1980 to 2000, gaps in homeownership rates between Hispanic immigrants and non-Hispanic immigrants with the same tenure in the U.S. steadily declined for those living in the United States for shorter periods of time; fluctuated for residents living in the U.S. for ten to twenty years; and increased for long-term residents. The gap among household living in the U.S. for 5 years or less declined from 12 percent in 1980 to 3 percent in 2000. Most households that have lived in the U.S. for 6 to 20 years experienced a decline in their homeownership gap, ranging from about 6 to 9 percentage points. The gap increased for long-term residents from 5 percent in 1980 to 16 percent in 2000.

Interestingly, the exhibit also suggests that Hispanic immigrants who arrived during the mid-1990s had the largest homeownership rate (16 percent) in their first five years of residency compared to immigrants who arrived during the mid-1980s (10 percent) and mid-1970s (12 percent). A more detail examination of arrival cohorts is presented in Exhibit 2-14. The exhibit highlights several important trends:

- Homeownership rates increased for all arrival cohorts (for which there are data) as residency in the U.S. increased, although earlier arrival cohorts had higher rates than more recent immigrants. For example, that 49.1% of the 1960-64 cohort owned after being in the country for 15-20 years, compared to 41.0% of the 1970-74 cohort and 43.4% of the 1980-84 cohort.
- Hispanic immigrants who arrived between 1960-1964 consistently had the highest homeownership rate among other Hispanic immigrants throughout the twenty-year period. Their homeownership rate was 49 percent in 1980, 54 percent in 1990, and 63 percent in 2000.
- Homeownership rates increased dramatically among Hispanic immigrants who arrived between 1975-1979, from 13 percent in 1980 to 51 percent in 2000. Immigrants who arrived during the early 1980s had the largest percentage point increase (nearly 26 percentage-points) within a decade.
- Hispanic homeownership gaps with non-Hispanic immigrants increased for some arrival cohorts and decreased for others. During the time period for which there is data, gaps increased for Hispanic immigrants who arrived between 1975-1979 (nearly 1 percentage point) and 1984-1989 (almost 7 percentage points). Gaps decreased overall for all other arrival cohorts, especially among immigrants who arrived between 1970-1974 (11 percentage point decline).

These trends are firmly supported by recent studies on length of residency and arrival cohorts that have found a persistent positive impact on homeownership as length of residency increases (Borjas; 2002; Callis, 2003; Coulson, 1999; Krivo, 1995; Masnick, 1997; Myers and Lee, 1998; and Painter *et al*., 2001). These studies have found length of residence to be significant statistically regardless of other contributing factors, such as age group, immigrant status, and country of origin. For example, one such study found that recent arrivals initially have far lower odds of homeownership than households who have been in the U.S. for longer periods of time, but this gap is progressively reduced across immigration cohorts as duration in U.S. increases.

Exhibit 2-14

Homeownership Rates and Gaps[1] Among Immigrant Hispanics, by Year of Arrival, 1980-2000

	1980		1990		2000	
Year of Arrival	**Rate**	**Gap**	**Rate**	**Gap**	**Rate**	**Gap**
1960 - 1964	49.1%	-13.6%	53.6%	-11.5%	63.1%	-12.3%
1965 - 1969	38.2%	-21.8%	45.2%	-17.5%	56.6%	-16.9%
1970 - 1974	25.0%	-22.6%	41.0%	-19.6%	56.2%	-11.0%
1975 – 1979[2]	12.5%	-10.8%	29.8%	-24.6%	51.1%	-11.7%
1980 - 1984			17.8%	-20.9%	43.4%	-13.9%
1984 - 1989			9.7%	-8.3%	33.2%	-15.0%
1990 - 1994					23.1%	-13.4%
1995 - 2000					16.1%	-2.7%

[1] Homeownership gaps are calculated in relation to the homeownership rate of non-Hispanic immigrants with the same years of tenure in the U.S.

[2] The 1980 IPUMS data coded this category as 1975-1980.

Sources: U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.

The reasons why recent immigrant waves have lower homeownership probabilities than other immigrant cohorts at a similar length of residence in the U.S. is likely due to lower endowments, including income, educational level, marital status, and employment skills. That is, recent immigrant households are more likely to be poor, uneducated, headed by singles, and unskilled compared to immigrant households in the past. As a result, recent immigrants experience greater difficulties in overcoming the barriers to homeownership.

Place of Residence

Exhibit 2-15 presents homeownership rates among Hispanic households, by metropolitan status from 1980 to 2000. Total homeownership rates were consistently largest in the South, lowest in the Northeast, and higher among households residing in non-metropolitan areas than in metropolitan areas. During the twenty-year period, rates increased in both the Northeast and Midwest, and declined slightly in both the South and West. Homeownership gaps remained relatively stable across the decennial years.

In the Northeast, overall homeownership rates steadily increased during the twenty-year period from 20 percent in 1980 to 25 percent in 2000. Total rates in each decennial year were approximately 20 percentage points lower than in any other region. In addition, there were sizable differences in homeownership rates among households living in metropolitan and non-metropolitan areas. Rates were much higher in non-metropolitan areas than in metropolitan areas by 30, 27, and 20 percentage points in each decennial year, respectively. Homeownership gaps changed little during the twenty-year period, especially among households in metropolitan areas. Gaps in metropolitan areas changed from 43 percentage points in 1980 to 45 percentage points in 2000. However, gaps in non-metropolitan areas widened from 25 percentage points in 1980 to 30 percentage points in 2000.

Exhibit 2-15

Hispanic Homeownership Rates and Gaps[1], by Metropolitan Status, 1980-2000

	1980		1990		2000	
Metropolitan Status	**Rate**	**Gap**	**Rate**	**Gap**	**Rate**	**Gap**
Northeast						
Not identifiable			44.5%	-23.8%	40.4%	-33.0%
Not in metro area	49.7%	-24.4%	47.8%	-25.3%	44.1%	-29.9%
In metro area	19.7%	-43.2%	20.7%	-46.1%	24.5%	-45.1%
Total	20.4%	-44.5%	21.1%	-46.4%	25.0%	-45.4%
Midwest						
Not identifiable			56.8%	-15.7%	53.2%	-22.9%
Not in metro area	58.2%	-17.9%	53.0%	-21.5%	50.8%	-25.5%
In metro area	43.0%	-27.3%	43.5%	-26.4%	47.6%	-26.0%
Total	45.0%	-27.2%	44.7%	-26.7%	48.2%	-26.4%
South						
Not identifiable			55.0%	-19.2%	57.6%	-19.4%
Not in metro area	60.9%	-15.7%	60.0%	-16.4%	58.6%	-19.7%
In metro area	53.3%	-15.9%	50.3%	-18.4%	52.5%	-20.7%
Total	54.5%	-17.2%	51.6%	-19.7%	53.3%	-21.4%
West						
Not identifiable			41.1%	-24.9%	57.8%	-15.2%
Not in metro area	60.8%	-9.7%	58.7%	-10.4%	59.1%	-12.6%
In metro area	45.3%	-17.4%	42.0%	-20.3%	45.7%	-20.9%
Total	47.3%	-16.8%	43.7%	-19.8%	46.9%	-20.7%

[1] Homeownership gaps are calculated in relation to the homeownership rate of non-Hispanic whites.

Sources: *U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 5% sample. The 5% sample was used for 2000 because the 1% sample in 2000 was designed to suppress information for geographic units containing fewer than 400,000 people. As a result, the 1% sample in 2000 contains large proportions of unidentifiable areas, which produced unreliable homeownership rates and gaps.*

Homeownership rates and gaps changed little in the Midwest. The total homeownership rate increased modestly in the Midwest by 3 percentage points during the twenty-year period. Nearly half (48 percent) of Hispanic households in the Midwest were homeowners in 2000. Between 1980 and 2000, rates among households residing in non-metropolitan and metropolitan areas changed slightly from 58 and 43 percent in 1980 to 51 and 48 percent in 2000. Similarly, homeownership gaps remained relatively stable from 1980 to 2000. Gaps widened among non-metropolitan households (from 18 to 26 percentage points) and remained essentially unchanged among metropolitan households (dropping only from 27 to 26 percentage points).

In the South, homeownership rates were comparatively higher than in other regions. The rate among non-metropolitan households was 61 percent in 1980, and declined only slightly to 59 percent in 2000. The rate among metropolitan households also dropped slightly from 53 percent in 1980 to 52 percent in 2000. Homeownership gaps, however, widened more sharply during the twenty-year period. Gaps in non-metropolitan areas increased from 16 percentage points in 1980 to 20 percentage points in 2000. The change in metropolitan areas was similar, with gaps in homeownership rates increasing from 16 percentage points in 1980 to 21 percentage points in 2000. Overall, the total homeownership rate (53 percent) in 2000 was higher than in any other region.

Finally, in the West, homeownership rates remained high among non-metropolitan households (61 percent in 1980; 59 percent in 1990; and 59 percent in 2000) and slightly below the region's total rate among metropolitan households (45 percent in 1980; 42 percent in 1990; and 46 percent in 2000). Non-metropolitan Hispanic households in the West had the highest ownership rate among all Hispanic households in any decennial year. Accordingly, homeownership gaps were relatively low among non-metropolitan households, ranging from 10 percentage points in 1980 to 13 percentage points in 2000. Gaps among metropolitan households were considerably higher than in non-metropolitan areas, widening from 17 percentage points in 1980 to 21 percentage points in 2000.

As the geographic distribution of Hispanic households demonstrates, Hispanic homeownership rates are consistently lower within metropolitan areas than in non-metropolitan areas, which is true of all households generally (Herbert *et al*., 2005). This finding is particularly important to understanding Hispanic homeownership rates and gaps because Hispanics are highly concentrated in metropolitan areas. For example, in 2000, approximately 92, 75, 70, and 81 percent of Hispanic households lived in metropolitan areas within the Northeast, Midwest, South, and West, respectively. The share of Hispanics across metropolitan and non-metropolitan areas were similar in 1990 and 1980. Thus, the overwhelming majority of Hispanic households are concentrated in areas with low homeownership rates.

The low Hispanic homeownership rates within metropolitan areas are due in part to the high cost of housing relative to Hispanic household income. Exhibit 2-16 lists thirty metropolitan areas with the highest proportion of Hispanic households in 2000 and provides four types of information for each area: (1) proportion of Hispanic households as a percent of the total household population; (2) median Hispanic household income; (3) Hispanic median income as a percent of Area Median Income (AMI),[19] and (4) median value of owner-occupied housing. The list of metropolitan areas is sorted by homeownership rate in descending order.

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19 To account for the significant variation in household income across market areas, policymakers measure household income as a percent of the AMI and use this measure to determine eligibility for participation in housing assistance programs. There are a variety of cutoffs used to determine for program eligibility. For example, under some homeownership programs (e.g., HOME and Mortgage Revenue Bonds), program participants must have income below area median. The GSE housing goals provide credit for loans made to households with income below 60 percent of AMI, or below 80 percent of AMI but residing in low-income neighborhoods. However, rental housing programs generally have more stringent income limits.

Exhibit 2-16

Hispanic Median Household Income and Metropolitan Median Housing Values in 30 Metropolitan Areas with the Highest Proportion of Hispanic Households, 2000

Metropolitan Area	2000 Rate	2000 Gap	Median Hispanic Household Income	Hispanic Median Income as a Percent of Area Median Income (AMI)	Median Value of Owner-Occupied Housing
McAllen-Edinburg-Pharr-Mission, TX	71.8%	-8.6%	$22,351	89.9%	$52,400
El Paso, TX	62.7%	-4.1%	$26,657	85.8%	$69,600
Albuquerque, NM	61.2%	-6.3%	$32,676	83.6%	$124,700
Riverside-San Bernardino, CA	60.3%	-11.7%	$37,252	87.9%	$138,500
San Antonio, TX	57.8%	-9.4%	$31,357	80.1%	$77,100
Tucson, AZ	56.4%	-11.7%	$30,177	82.1%	$114,600
Modesto, CA	55.5%	-11.9%	$35,015	87.3%	$125,300
Miami-Hialeah, FL	54.1%	-14.1%	$33,536	93.2%	$124,000
Orlando, FL	54.1%	-18.0%	$34,093	81.4%	$109,100
Bakersfield, CA	50.9%	-17.7%	$27,263	76.9%	$93,300
Phoenix, AZ	50.9%	-22.3%	$33,915	75.8%	$127,900
Ventura-Oxnard-Simi Valley, CA	50.7%	-22.8%	$46,404	77.8%	$248,700
Stockton, CA	50.1%	-18.5%	$33,282	80.6%	$142,400
Denver-Boulder-Longmont, CO	50.0%	-20.7%	$38,115	74.5%	$176,600
Oakland, CA	49.7%	-18.8%	$49,780	83.9%	$289,100
Fort Worth-Arlington, TX	47.3%	-20.8%	$35,547	77.3%	$90,300
San Jose, CA	46.6%	-19.6%	$55,572	74.8%	$446,400
Vallejo-Fairfield-Napa, CA	46.6%	-23.9%	$45,624	85.4%	$191,100
Houston-Brazoria, TX	46.3%	-23.7%	$32,616	73.0%	$90,200
Las Vegas, NV	45.3%	-19.8%	$37,863	89.2%	$136,200
Fresno, CA	44.7%	-22.9%	$28,079	80.3%	$106,800
Austin, TX	43.3%	-14.6%	$38,356	78.4%	$128,100
Orange County, CA	42.4%	-26.3%	$44,676	76.0%	$270,000
San Diego, CA	39.7%	-22.7%	$34,555	73.4%	$227,200
Dallas-Fort Worth, TX	39.5%	-26.4%	$35,542	73.5%	$108,100
Los Angeles-Long Beach, CA	37.7%	-20.6%	$33,820	80.2%	$209,300
Bergen-Passaic, NJ	35.7%	-37.4%	$44,526	75.0%	$233,300
Jersey City, NJ	19.5%	-21.0%	$33,613	83.4%	$150,300
Hartford-Bristol-Middleton-New Britain, CT	18.3%	-49.2%	$27,050	51.8%	$147,600
New York-Northeastern NJ	14.4%	-28.6%	$28,791	70.1%	$233,700
Total	45.6%	-26.8%	$35,603	79.4%	$159,397

Sources: U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.

For example, the Section 8 program is generally limited to households with incomes below 50 percent of AMI, and rental projects under the HOME program are aimed at households below 65 percent of AMI. Housing developments that use Low-Income Housing Tax Credits can choose to reserve either a minimum of 20 percent of the units for households at or below 50 percent of the area median income, or at least 40 percent of the units for occupancy by households at or below 60 percent of area median income.

The exhibit suggests that Hispanic homeownership rates are higher and gaps are lower in areas where:

- Hispanic median income is a higher proportion of the area median income; and
- Median housing values are lower.

For example, the Hispanic median income as a percent of AMI was above 80 percent in nine of the ten metropolitan areas with the highest homeownership rates. In the McAllen-Edinburg-Pharr-Mission (TX) metropolitan area, the Hispanic median income as a percent of AMI was 90 percent and 72 percent of Hispanic households were homeowners. Similarly, in the El Paso (TX) metropolitan area the Hispanic median income as a percent of AMI was 86 percent and 63 percent of Hispanics were homeowners. In both McAllen-Edinburg-Pharr-Mission and El Paso, the median value of owner-occupied housing was inexpensive ($52,000 and $69,600), and not surprisingly, homeownership gaps were below 10 percentage points. None of the top ten metropolitan areas with high Hispanic homeownership rates had median housing values above the national median ($159,397).

By contrast, Hispanic homeownership rates are much lower in metropolitan areas where the Hispanic median income was a lower proportion of AMI and median housing values were higher. For example, the Hispanic median income as a percent of AMI was below 80 percent in seven of the ten metropolitan areas with the lowest homeownership rates. In the Bergen-Passaic (NJ) metropolitan area, the Hispanic median income as a percent of AMI was 75 percent and the homeownership rate among Hispanic households was only 36 percent. Similarly, in the New York-Northeastern (NJ) metropolitan area the Hispanic median income as a percent of AMI was 70 percent and only 14 percent of Hispanic household were homeowners. In both the Bergen-Passaic and New York-Northeastern metropolitan areas, the median value of owner-occupied housing was expensive ($233,300 and $233,700), and homeownership gaps (37 and 29 percentage points) were higher than the national total (27 percentage points). Half of the metropolitan areas with the lowest homeownership rates had median housing values above the national median ($159,397).

Indeed, place of residence has consistently been found to be an important factor in determining homeownership (Borjas, 2002) and its impact on Hispanic households is unique in two important ways. First, most Hispanics enter the U.S. through gateway cities, particularly cities in California, Texas, New York and Florida, that tend to be high cost housing markets (McArdle, 1995). The weighted average median house value for Hispanics across the 107 metropolitan areas with the highest proportion of Hispanics was $147,987, compared to $121,205 for non-Hispanic whites in these areas.[20] This suggests that Hispanic households are located disproportionately in higher cost housing markets, which contributes to the gap in homeownership rates between Hispanics and non-Hispanic whites. One recent study even found that expensive housing markets create greater barriers to homeownership for Hispanics than for non-Hispanic whites (Krivo, 1995).

[20] These figures are derived by using the share of the population of Hispanics and non-Hispanic Whites in each market as a weight in estimating the average house value across these markets. For example, a market where 4 percent of Hispanics reside would have a weight of .04 in estimating the average, while if 2 percent of Whites live in that market the weight for Whites would be .02.

Second, the concentration of Hispanic households into ethnic enclaves (or barrios) is prevalent. The impact of ethnic enclaves on homeownership opportunities is unclear (Borjas, 2002; and Flippen, 2001b). On the one hand, Hispanic barrios may help immigrants circumvent any discrimination otherwise encountered outside the enclave. In this scenario, access to housing and mortgage markets is facilitated by Hispanic realtors and bankers that live in the community. Neighbors with similar preferences and cultures may also make a community more welcoming and desirable, thereby increasing demand for housing. On the other hand, ethnic enclaves could create incentives for immigrants not to leave the community. The attractiveness of these enclaves may result in greater rates of segregation from whites, which may, in turn, depress Hispanic homeownership rates by limiting homeownership opportunities or preventing Hispanics from acquiring the skills needed in the larger labor market.

Determinants of Overall Homeownership Gaps Among Hispanics

All of the factors identified in the preceding section have been found to have clear affects on Hispanic homeownership rates and gaps. However, determining which of these factors affect rates and gaps more heavily than other factors is challenging. Moreover, if these factors only offer a partial explanation of the Hispanic-white gap, it leaves open the question of what other factors may be influencing rates and gaps. Several studies have attempted to determine which factors are most important in explaining differences in homeownership rates between Hispanics and whites and how much of this gap can be explained by available data.

Wachter and Megbolugbe (1992) use data from the 1989 American Housing Survey and find that household characteristics (income, age, education, family type, and gender) and market factors (house prices and geographic location) together explain 78 percent (or 32 percentage points) of the 41 percentage point gap in homeownership rates between non-Hispanics (including blacks) and Hispanics. These researchers conclude that income is the most important characteristic accounting for the Hispanic homeownership gap, followed by martial status and gender. However, there were a number of important variables that were not included in their statistical models because of limitations with the available data, including wealth, immigrant status, and credit history.

Using data from the 1996 CPS to analyze Hispanic homeownership rates, Coulson (1999) is able to include measures of Hispanic immigrant status, including how long individuals have lived in the U.S. and whether they are citizens. Unlike most studies of racial and ethnic differences in homeownership rates, Coulson does not include measures of race and ethnicity directly in the regression model. Instead, the estimated homeownership rate for each racial-ethnic group is compared to their actual rates to determine whether the model over or under predicts homeownership rates for each group. Coulson finds that only a relatively small portion of the difference in homeownership rates between whites and Hispanics is unexplained by the household characteristics and housing market variables in the model. Of the 31 percentage-point difference in Hispanic-white homeownership rates, only 2 percentage points is unexplained. The most important explanatory factors among Hispanics include their higher share of immigrants, younger age, and concentration in high cost housing markets. Coulson further examines these differences for different ethnic groups and finds the largest unexplained gaps in homeownership rates are for Puerto Ricans (9 percentage points), followed by Cubans (7 percentage points) and “other” Hispanics (4 percentage points). Mexicans are not found to have any unexplained difference in homeownership rates from whites once household and market characteristics are taken into account.

Flippen (2001a) is notable because of the extensive set of explanatory variables used in the study. The study used data from the 1991-92 Health and Retirement Survey to study racial differences in homeownership rates among whites, blacks, and Hispanics. The data included information on: inheritance amounts; age; marital status; number of children; health status; cognitive ability; levels of education and income; occupation, self-employment and retirement status; number of prior layoffs; expected years of life remaining; geographic location, including region and urban location; risk tolerance; and length of planning period. Although the list of variables includes proxies for hard to measure concepts such as income uncertainty and risk aversion, the study does not include measures for immigrant status and the sample is limited to individuals between age 51 and 61. The unadjusted gap in Hispanic-white homeownership in the sample was 27 percentage points, of which differences in observable personal characteristics explained 21 percentage points, which leaves a residual component of 6 percentage points. Differences in income and employment characteristics between whites and Hispanics were the most important factors, together accounting for half of the overall homeownership rate differences. The geographic concentration of Hispanics in higher cost housing markets, especially in the West and in urban areas, was also found to be important. Since the sample is restricted to a single age group, age is not found to be a factor contributing to lower homeownership rates among Hispanics in the sample.

Finally, Gabriel and Rosenthal (2005) analyze data from the Survey of Consumer Finance to identify the factors associated with homeownership trends by race and ethnicity between 1983 and 2001. The models used in the study control for household demographic characteristics and geographic location, but also incorporate information on whether the household is constrained in its access to credit. However, the models do not control for immigrant status. Gabriel and Rosenthal find that roughly half of the average Hispanic gap during the study period was explained by available variables (14 percentage points out of a total gap of 30 percentage points). The remaining portion of the gap is attributable to factors not captured in the models, including immigrant status and discriminatory treatment. Gabriel and Rosenthal also do not attempt to identify the specific household and housing market factors that are most important in producing the overall disparity in white and Hispanic homeownership rates, although credit barriers account for between 2 and 5 percentage points of the overall gap.

Interestingly, Gabriel and Rosenthal also examined white-black gaps in homeownership rates but find that the included variables in the models explain a much larger share of the observed differences compared to Hispanics. On average, the included variables accounted for 19 percentage points of the total gap of 26 percentage points. The larger unexplained Hispanic gap may reflect the barriers faced by the large share of immigrants among Hispanics.

Looking at these studies as a whole, it is clear that immigration status is quite important in explaining the overall gap in homeownership rates between Hispanics and whites. This is most evident in Coulson’s analysis, which is able to account for the vast majority of the Hispanic-white homeownership gap in large part because it is the only one of these studies to include variables related to immigrant status. Other studies that rely on household and housing market characteristics but do not control for immigration status are only able to explain roughly between half and three-quarters of the overall Hispanic-white homeownership gap. The importance of immigration status is also implied by the findings of Gabriel and Rosenthal. A much larger portion of the Hispanic-white gap is unexplained by available household and housing market characteristics when compared to blacks. In general, the studies also confirm the importance of lower income and education levels among Hispanics as well as their younger age profile in contributing to the Hispanic-white homeownership gaps. Also, Hispanics concentration in higher cost urban markets and in the West are another important contributing factor. The work by Garbriel and Rosenthal confirm that credit barriers do contribute to the Hispanic-white homeownership gap, but the magnitude of the impact is fairly small, ranging from 2 to 5 percentage points over a 20-year period.

Summary of Findings

This chapter highlighted major trends in Hispanic homeownership from 1980 to 2000 and identified numerous socio-economic and residential factors that contributed to sizable gaps in homeownership rates between Hispanics and other groups. By 2000, Hispanic homeownership rates (45.6 percent) lagged far behind non-Hispanic Whites (72.5 percent), and were even somewhat lower than other racial minorities, including non-Hispanic Blacks (46.6 percent), and Asian or Pacific Islanders (53.1 percent). Hispanic households had the largest gap in homeownership rates among all minority groups.

The data analysis and literature review found that age, income, level of education, net worth, household type, nativity, country of origin, degree of social integration (citizenship status and years in the U.S.), and place of residence were all important factors that contributed to the gap in homeownership rates between Hispanics and non-Hispanic whites. Specifically, the data demonstrated that Hispanic homeownership rates increase and gaps decrease with age, income, and wealth, and educational status. Marriage was also a strong determinant of homeownership and, as expected, married couples displayed much higher rates of homeownership than other household types.

While immigrant status is associated with lower homeownership rates, there are also substantial gaps in homeownership rates for native Hispanics. Among the immigrant-related characteristics, country of origin, citizenship status, and years in the U.S. were found to be important correlates of Hispanic homeownership. Homeownership rates increased with citizenship and length of stay in the U.S., although arrival cohort effects were evident as homeownership rates of more recent immigrant groups have not risen as much overtime as earlier immigrant cohorts. Lastly, the concentration of Hispanics in high cost housing markets also affected Hispanic homeownership rates.

Studies that have attempted to explain the gap in homeownership rates between Hispanics and whites generally find that differences in household and housing market factors explain between half and three-quarters of the overall gap. Differences between whites and Hispanics in income, educational attainment, age, and geographic location are particularly important factors. One study that also included measures of immigration status, including years in the U.S. and citizenship status, was able to explain the vast majority of differences in Hispanic and white homeownership rates. Together, these results suggest that Hispanics confront many of the same barriers facing other low-income and minority households, but also confront immigration-related barriers that are particularly acute among Hispanics. These issues are explored in detail in the next chapter.

Chapter 3
Barriers to Hispanic Homeownership

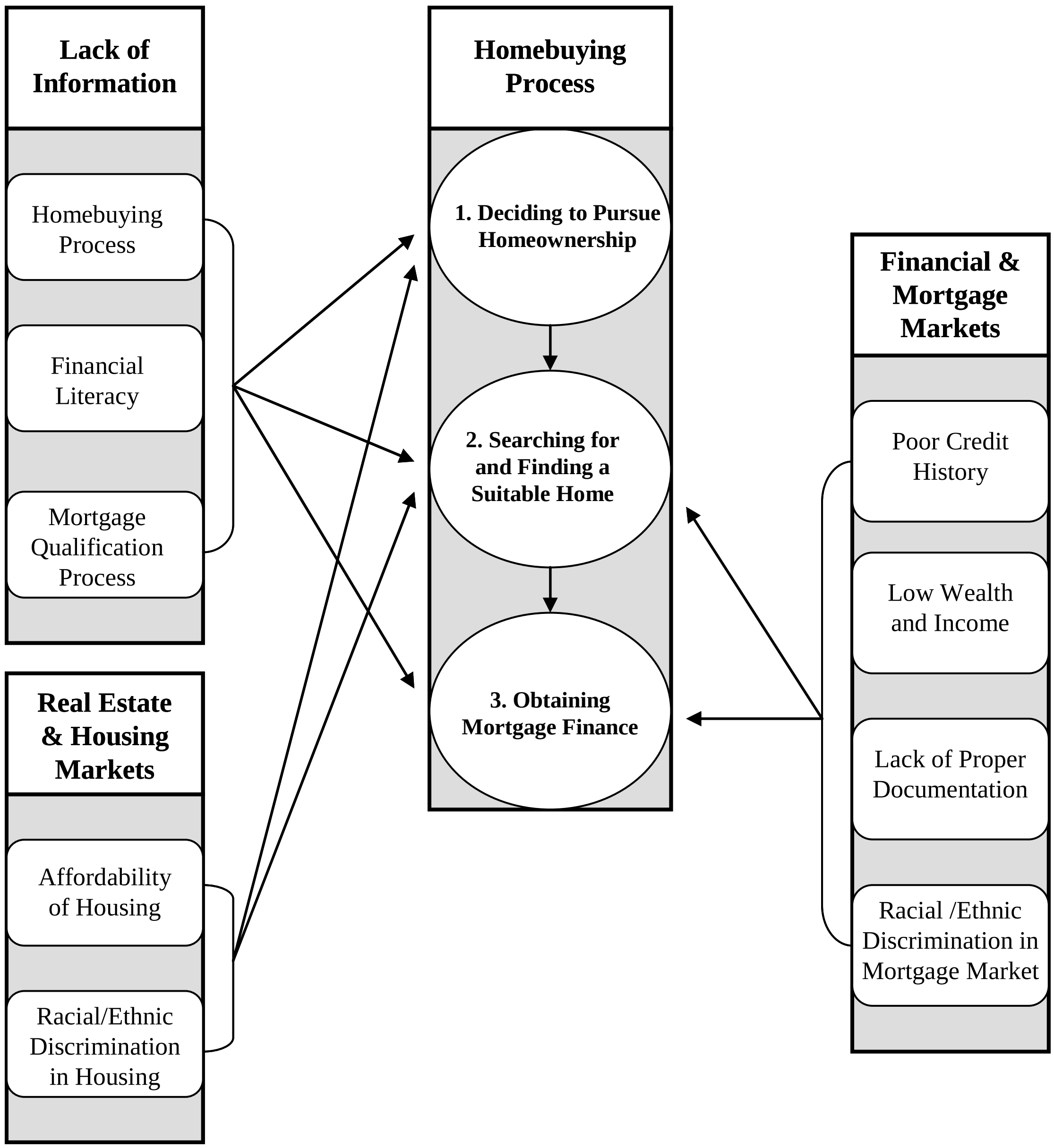
As described in the previous chapter, the socio-economic and immigrant characteristics of Hispanic households are strongly associated with their homeownership rates and gaps. The relationship between these characteristics and the likelihood that a Hispanic household will become a homeowner does not occur in a vacuum. Institutional and market barriers faced by Hispanic households affect both whether they view homeownership as a real opportunity and their ability to navigate through the homebuying process successfully.

Exhibit 3-1 groups these institutional and market forces into three types of barriers and demonstrates how these barriers affect the homebuying process. The three barriers include:

- **Lack of information.** Many Hispanic households lack information about the U.S. homebuying process. The confluence of language barriers, a lack of formal relationships with financial institutions, and a general lack of information – or misinformation – about the mortgage and homebuying process dissuades some Hispanic households from attempting to buy a home. Lack of information affects every stage of the homebuying process.
- **Real estate and housing markets.** High-cost housing and the potential for discrimination in the real estate and housing markets are other important barriers to Hispanic homeownership. Many Hispanics live in high-cost housing markets that lack decent, affordable housing—especially households living in “gateway cities” that are the primary U.S. entry point for immigrants. Discrimination in the real estate and housing markets also affects a Hispanic household’s likelihood of homeownership either by discouraging Hispanics from considering homeownership or by limiting their housing search to certain (often less desirable) neighborhoods.
- **Financial and mortgage markets.** Poor credit histories, low household incomes, few assets, and non-traditional forms of employment may put conventional mortgage products out of reach for many Hispanic households. The extent to which new lending products can fill this void is unclear. Hispanic households may also confront racial and ethnic discrimination in the banking and mortgage lending industry.

This chapter discusses each of these barriers in turn. The next section discusses how lack of information, including both understanding the homebuying and mortgage qualification processes and general financial literacy, affects a households’ decision to pursue homeownership, search for a home, and obtain mortgage financing. The second section discusses how housing affordability and racial/ethnic discrimination in real estate markets may discourage households from considering homeownership or limit their housing options. The third section focuses on the difficulties many Hispanic households confront when trying to satisfy mortgage underwriting guidelines. The last section summarizes findings from this chapter.

Exhibit 3-1: Barriers in the Homebuying Process



Lack of Information About the Homebuying Process

The U.S. housing market during the past few years has been among the strongest in history, and Americans of all ethnicities and races are feeling confident about homebuying. A national survey of both renters and owners conducted by the Fannie Mae Foundation (2003) finds that Hispanics view homeownership as a safer investment than putting their money into an IRA or 401(k) plan, a savings or money market account, mutual funds, or the stock market. Among both English-speaking and

Spanish-speaking Hispanics,[21] the main reasons to buy a home are that homeownership provides a feeling of owning something of their own (82 percent and 79 percent) and that homeownership is a good long-term investment (77 percent and 78 percent). Other studies suggest that Hispanics want to become homeowners in order to have "something for their children," to save money on rent, and to stop "dealing" with landlords (Congressional Hispanic Caucus Institute, 2004). Other researchers have found that immigrant groups see homeownership as an integral part of becoming an American, and they are three times more likely as all adults in the U.S. to rank homeownership as their number one priority (Schoenholtz and Stanton, 2001). Hispanics also believe that homeownership allows them to live in a neighborhood they enjoy and that paying rent is not a good investment (Fannie Mae, 2003; Ratner, 1996).

While Hispanics today have extraordinary faith in homeownership as a desirable investment and a source of personal satisfaction, they are less likely to have accurate information about homeownership than other populations (Fannie Mae, 2003; National Association of Hispanic Real Estate Professionals, 2000; Lee, Tornatzky, and Torres, 2004). The level of understanding about the homebuying process generally, the importance of a person's financial history, and the mortgage qualification process is considerably lower among Hispanics, especially Spanish-speaking Hispanics, than the general population. Overall, the information gap dissuades many Hispanics from considering homeownership and undermines Hispanics' confidence in completing the homebuying process successfully.

The Homebuying Process

Fannie Mae's 2003 National Housing Survey finds that only 44 percent of Spanish-speaking Hispanics and 64 percent of English-speaking Hispanics have accurate information about the homebuying process, compared with 60 percent of African Americans and 69 percent of the total population.[22] As Exhibit 3-2 suggests, when Hispanics, particularly Spanish-speaking Hispanics are asked specific questions about the homebuying process they are less likely to have an accurate understanding of the process. For example, the majority of English-speaking Hispanics (58 percent) and a large majority of Spanish-speaking Hispanics (75 percent) believe that housing lenders are required by law to give borrowers the best possible rates on loans. A little more than a quarter of English-speaking Hispanics and about two-thirds of Spanish-speaking Hispanics believe that borrowers must accept a 30-year commitment to obtain a mortgage. Spanish-speaking Hispanics, in particular, are less likely than other groups to have accurate information. Forty percent of Spanish-speaking Hispanics believe that information on buying a home is only available in English, and approximately 60 percent believe they need an attorney to fill out the paperwork when buying a house.

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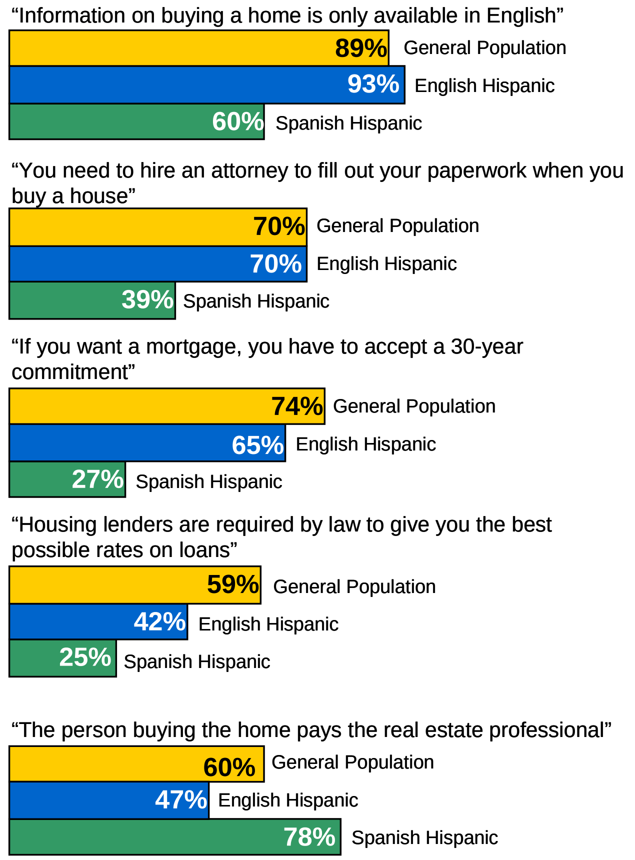
[21] In the Fannie Mae 2003 National Housing Survey, English-speaking Hispanics were defined as those Hispanics who both speak and read English most frequently at home. Similarly, Spanish-speaking Hispanics were defined as those Hispanics who speak and read Spanish most frequently at home.

[22] The Fannie Mae survey divided Hispanics into two groups based on the use of Spanish in the home. Hispanic respondents that reported Spanish as the most frequent language used in the home for both speaking and reading were categorized as "Spanish Hispanics," while those that reported English as the most frequently used language were categorized as "English Hispanics." For clarity, the terms Spanish-speaking and English-speaking Hispanics are used for these two groups in this report.

Misconceptions about the U.S. homebuying process are exacerbated by cultural differences and past experiences in the home country. In the U.S., the homebuying process is a highly regulated activity, from the point of housing construction or renovation to the point when a buyer closes on a home. By contrast, in Mexico, there are an estimated 12 to 16 million homes that have been built without formal approval, and clouded titles may prevent households from selling or buying homes (Schuetz *et al*., 2004). As a result, many homes in Mexico are passed along in the family, and members of these households are never exposed to, or learn about, the process of buying a home. A recent study found that many of these households believe that becoming a homeowner in the U.S. is much more difficult than in their home county. Despite knowing very little about the homebuying process, many Hispanic immigrants said that it was much "tougher" to become a homeowner in the U.S. than in their home country. Many participants in the study expressed the following view: "While America gives you some advantages, it is more difficult to own a home in the U.S." (Bendixen and Associates, 2004, p. 14).

Exhibit 3-2: Percentage who know that the following statements are false



Source: Fannie Mae National Housing Survey, 2003, p. 7

Even for those household members who have gone through the homeownership process in their home county, prior experiences do not always resolve misconceptions about the U.S. homebuying process. Indeed, for many Hispanic immigrants, these misconceptions are worsened by their prior experiences with homebuying in their countries of origin (Schoenholtz and Stanton, 2001). For example, many Hispanic immigrants who come from countries where a very large down payment (up to 50 percent of the house value) is required to purchase a home assume this requirement applies to the U.S. market as well. According to the National Council of la Raza (2002), this "old country knowledge" deters many Hispanic immigrants from pursuing the homeownership path.

Financial Literacy

Financial literacy – knowing and understanding the basic principles of spending, using credit, saving, and investing – typically is learned through routine interactions with financial institutions, especially banks. However, a number of low-income and immigrant Hispanic households distrust mainstream financial institutions and eschew relations with them (Congressional Hispanic Caucus Institute, 2004). For example, a 1999 survey of residents of low-income neighborhoods in New York and Los

Angeles found that 45 percent of Hispanics did not have a transaction account with a bank, compared to 31 percent of blacks and 9 percent of whites (Dunham, 2001).[23] Focus groups conducted in Alabama and Nevada suggest that Hispanics' view banks as "insecure," "unforgiving," and "unwelcoming." Focus group participants describe losing their life savings because of bad banking practices, losing their property to bank foreclosure, and other "horrible" or "disappointing" experiences (Bendixen and Associates, 2004). This distrust is reinforced by the lack of outreach to Hispanic communities by financial institutions and by the general absence of financial professionals who are bilingual and bicultural (National Council of La Raza, 2002).

A recent study focusing on homeownership achievement among Mexican-Americans in three major metropolitan areas concluded that the lack of a formal relationship with a bank was a common characteristic of survey respondents who were least able to progress in the homebuying process (Lee, Tornatzky, and Torres, 2004). This study conducted a telephone survey of 1,400 households about their interest in becoming homeowners, their perceptions regarding obstacles to achieving homeownership, and the characteristics of the households. The study divided households into two groups: those actively pursuing homeownership or recently purchased a home, and those who would like to buy a home but are not actively pursuing this goal at present. They found that a key distinguishing feature of those not actively pursuing homeownership was a lower likelihood of having a bank account. While 77 percent of those actively seeking a home to buy had an account, only 52 percent of inactive households did. Inactive households were also less likely to have a credit card (40 percent compared to 60 percent of active households). The authors conclude that this lack of formal relationship both signaled a lack of comfort and familiarity with formal financial networks and a lack of a credit history, both of which are needed to become a homeowner.

There is also some evidence that the lack of formal ties to financial institutions may contribute to Hispanics developing poorer credit histories. A recent study by Bostic *et al*. (2004) estimates credit scores for respondents to the Survey of Consumer Finance in 2001. They find that 63 percent of Hispanic renters have low credit scores (below 660), compared to 54 percent of black renters and 35 percent of white renters.

Undocumented Hispanics,[24] in particular, may exist completely in the informal economy, working in jobs that pay in cash and purchasing all goods and services in cash. According to a recent estimate there are approximately 1.5 million undocumented Hispanic households (or 5.8 million undocumented Hispanics) in the U.S. Many of these undocumented households have the characteristics associated with potential homeownership (discussed in chapter 2), and an estimated

[23] These shares of unbanked households are derived from data presented in Dunham (2001). Since these data are for low-income neighborhoods in two cities, it is not known how representative they are for Hispanics generally. Aizcorbe *et al*. (2003) present tabulations of the share of families without transaction accounts based on the 2001 Consumer Finance Survey for the entire nation. These data show that 31.5 percent of families with income in the bottom quintile do not have transaction accounts and that 24.8 percent of minorities do not have transaction accounts, compared to 5.3 percent of whites (the survey does not have enough observations to provide tabulations for Hispanics separately). Thus, the survey data for New York and Los Angeles are not inconsistent with national data.

[24] An undocumented person is defined as a foreign born person who is not a U.S. citizen and does not have legal immigration status.

216,000 of these households could become homeowners if they had improved access and information to the homebuying process (Paral and Associates, 2004).

Whether by habit or necessity, these Hispanics do not interact with formal aspects of American society, especially banks, and tend to rely on the alternative financial sector (Barr, 2004) and personal connections (Neighborhood Reinvestment Corporation, 2004). In a research brief on banking the poor, Barr (2004) notes that in lieu of bank-based transactions, unbanked households often use check cashers to cash checks, pay bills, and wire funds; payday lenders for short-term consumer loans; and tax preparers and refund anticipation lenders to file for an earned income tax credit (EITC). Check cashing fees vary widely nationally from about 1.5 percent to 3.5 percent of the face value, which amounts to approximately $1.5 billion in annual fees. Payday lenders carry an average annual interest rate of over 470 percent, and an average loan of $300 for a single, two-week loan generates about $54 in interest. Some borrowers take out multiple loans from payday lenders to repay a previous payday loan and incur additional "rollover" fees. Some low-income households, especially households who do not speak English and have difficulty understanding the tax-filing process, rely on tax preparers and refund anticipation lenders that can consume a considerable portion (an average of 13 percent) of a low-income household's EITC. Overall, the use of the alternative financial sector significantly reduces take-home pay, hinders a household's ability to accumulate wealth and establish credit, and may expose a household to higher risk of robbery or theft.

The lack of a relationship with financial institutions also leads some Hispanics to seek advice from informal sources such as a family member or friend (Ratner, 1996; Real Estate Center, 2004; Rhine and Toussaint-Comeau, 2000; Congressional Hispanic Caucus Institute, 2004) or to rely on "cultural brokers" such as bilingual real estate agents, housing advocates, or lenders (Ratner, 1996). In some cases these advisors are not a good source of advice or cannot be trusted. Focus groups conducted in 11 cities[25] throughout the country suggest that Hispanics are quick to trust "anyone who speaks their language and knows their community," but often these trusted sources were predatory lenders and realtors (Congressional Hispanic Caucus Institute, 2004).

Even Hispanic households who are more trusting of banks and other financial institutions may have problems opening savings or checking accounts because of poor financial literacy. Without adequate financial planning skills, households live paycheck to paycheck, are overwhelmed by daily expenses, and find it difficult to set money aside to meet basic banking requirements, such as annual fees and minimum balances. Some households who lack basic English speaking and writing skills are put-off by the lack of bi-lingual and bi-cultural professionals in the banking industry, and thus find it difficult to place their trust in them. A survey of Texans found that nearly half of Hispanics felt that "[real estate] agents don't take the time to understand one's needs" and, unlike other ethnic groups, Hispanics are more likely to first ask their parents for real estate advice rather than an agent (Real Estate Center at Texas A&M University, 2004). Other households are unable to become new accountholders because banks do not accept foreign identification papers and households do not

[25] A total of 467 housing advocates and practitioners, industry experts, and Latino consumers participated in focus groups in the following cities, Atlanta (GA), Chicago (IL), Durham (NC), Kansas City (KS), Las Cruces (NM), Las Vegas (NV), Los Angeles (CA), Miami (FL), New York (NY), San Antonio (TX), and San Juan (PR).

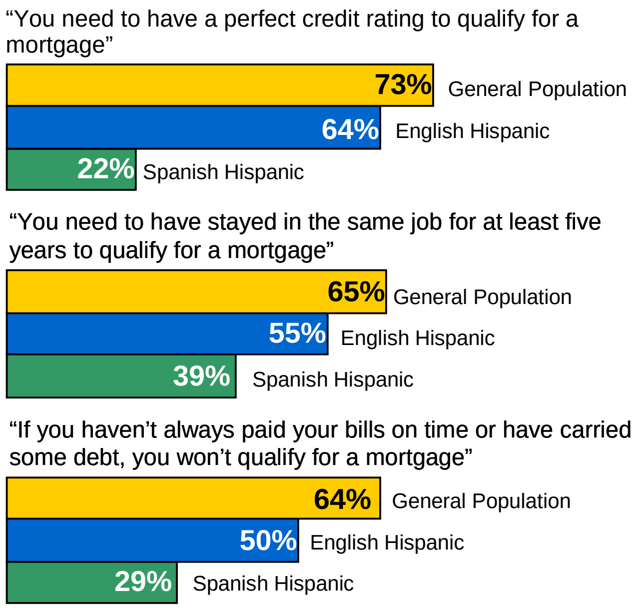
understand how to obtain proper U.S. identification (or are unable to obtain proper identification due to their legal status).

The Mortgage Qualification Process

Surveys of Hispanics in the U.S. suggest that Hispanics understand the value of establishing a good credit history and they know that a credit history is a key criterion for becoming a homeowner. However, Hispanics are less clear about what defines a good credit history, what qualifies as acceptable creditworthiness to secure a mortgage, and what steps can be taken to repair their credit history (Bendixen and Associates, 2004; Ratner, 1996). In an ethnographic study of minority pathways to homeownership, several focus group participants believed that their credit rating was downgraded when they paid their bills on time because creditors were making less money. Some participants noted that they were advised to let a few payments slip as a way to build their credit, and others thought that having a loan on an expensive car would improve their credit rating because it demonstrated their ability to pay off a loan.

The lack of understanding about credit is particularly troubling among Hispanics. In Fannie Mae's national survey (2003), credit concerns are the most frequently cited reason why both English-speaking Hispanics (49 percent) and Spanish-speaking Hispanics (46 percent) have not purchased a home. By contrast, 42 percent of Blacks and 39 percent of the general population cite credit concerns as the main reason for not purchasing a home. Nearly half of all Hispanics in the U.S. worry that their credit is not good enough to qualify for a mortgage. Only 15 percent of Spanish-speaking Hispanics report having a great deal of experience with credit and debt, compared to 40 of the total population and 41 percent of English-speaking Hispanics.

Exhibit 3-3: Percentage who know that the following statements are false



Source: Fannie Mae National Housing Survey, p. 10

As Exhibit 3-3 suggests, many Hispanics, especially Spanish-speaking Hispanics, have inaccurate information about mortgage credit decisions. To qualify for a mortgage, almost 80 percent of Spanish-speaking Hispanics believe that they need a perfect credit rating; approximately 60 percent believe they need to stay in the same job for at least five years; and 70 percent believe they must always pay their bills on time or carry some debt. These percentages are significantly lower, 27, 35, and 36 percent, respectively, among the general population. Overall, two-thirds of the general population correctly answered these three questions on mortgage credit decisions, compared to approximately half of English-speaking Hispanics and less that one-third of Spanish-speaking Hispanics.

The Information Gap and the Homebuying Process

As summarized above, a variety of studies and surveys have concluded that information gaps about the homebuying process, the importance of establishing a financial history, and the mortgage qualification process are significant barriers to homeownership among Hispanics. In part, this gap can be attributed to a lack of educational materials written in Spanish and the lack of professionals in the homebuying process who speak Spanish. Conversely, the information gap can partially be related to a lack of English fluency among potential Hispanic homebuyers (National Association of Hispanic Real Estate Professionals, 2000). These issues will be discussed in more detail in chapter 4. Overall, however, information gaps dissuade some Hispanics from pursuing homeownership either because their misconceptions about the process lead them to believe that homeownership is unaffordable or too complicated, that banks are untrustworthy, or that they do not qualify for a mortgage due to their credit history. In short, the information gap undermines Hispanics' confidence in *completing* the homebuying process.

Indeed, according to the national survey conducted by Fannie Mae (2002), Spanish-speaking Hispanics are much less confident they can complete the homebuying process compared to the general population. Scored on a five-point scale, English-speaking Hispanics are nearly as confident as the general population in completing the homebuying steps (3.8 compared to 3.9), and Spanish-speaking Hispanics are less confident (3.4). Echoing the general findings for Spanish-speaking Hispanics, the survey finds that Spanish-speaking Hispanics are especially less confident about obtaining a mortgage (3.2 compared to 3.9) and finding a real estate professional they can trust (3.1 compared to 3.5).

Confidence in completing the homebuying process is further depressed by perceptions among Hispanics that housing prices are increasing too rapidly and feelings of discrimination in the housing market (Fannie Mae, 2003). The issues of housing affordability and the potential for housing market discrimination are discussed in the following section.

Housing Market Barriers

The U.S. housing market has boomed since the late 1990s. Fueled by low interest rates and steady residential construction, the boom has encompassed all regions of the nation, geographic areas, and a range of submarkets (Joint Center for Housing Studies, 2004; Fannie Mae, 2004). It has outlasted an economic recession and considerable job losses during the past few years. Nevertheless, the fear among many observers is that the boom will squeeze many homeseekers out of the market if housing prices rise faster than household incomes and if all households, especially immigrants, are unable to freely access homeownership opportunities. These fears are not completely unfounded. A recent study suggests that, at the national-level, a median-income, first-time homebuyer with 10 percent down payment will no longer qualify for a median-priced home beginning in 2004. At the metropolitan-level, a median-priced home will remain affordable or nearly affordable for median-income buyers in only 3 of 11 major urban markets (Fannie Mae, 2004). In addition, while nearly one-third of household growth is attributed to immigration, there are concerns that persistent (albeit diminished) about the incidence of discrimination in the housing market, which may continue to limit homeownership opportunities among minorities. Discrimination in the housing market is discussed below.

The pressing issues of housing affordability and discrimination in the housing market are particularly important to Hispanics. As described in previous chapters, many Hispanics are concentrated in gateway cities that tend to be high cost housing markets. Hispanic incomes in 1999, however, lag far behind the national median household income. In addition, many Hispanic households are concentrated into ethnic enclaves (or barrios), which may help them circumvent discrimination otherwise encountered outside the enclave or may create incentives for them not to leave the enclave. Regardless, both deliberate and de facto residential segregation restrict the available housing options among the nation's largest growing minority population.

The impact of housing affordability and discrimination on the Hispanic homebuying process are discussed in the following section. Overall, these factors can both chill interest in pursuing homeownership by putting it out of reach of many Hispanic households and also make the housing search more difficult.

Housing Affordability

The increasingly common perception among Hispanics is that homeownership is an unaffordable dream. A study conducted by Fannie Mae suggests that the confluence of dramatic housing price appreciation with the slow pace of income growth is making homeownership increasingly unaffordable for median-income working households, especially households seeking to purchase a home for the first time (Fannie Mae, 2004).[26] The Fannie Mae study creates annual homeownership affordability ratios – or the amount of qualifying income[27] required to obtain a median-priced home loan divided by median family income – for both the nation and 11 major metropolitan areas from 1990 to 2008 (projected). Ten of the 11 metropolitan areas in the study (all except Seattle) are among the 30 metropolitan areas with the largest number of Hispanic households in the nation. Ratios are created separately for first-time homebuyers and repeat homebuyers.[28] A ratio equal to 100 suggests that a median-income family is just able to afford a median-priced home; ratios above 100 equate to unaffordable conditions while those under 100 equate to affordable conditions. Of course, this is a fairly crude measure of affordability both because it focuses on single points in the income and house price distributions and because it ignores household wealth, which is an important factor in determining whether a household can afford to purchase a home. Nonetheless, it is a useful short hand measure for comparing affordability across market areas.

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[26] Data on estimated median family income come from three sources: the national median-income data from the U.S. Bureau of the Census *Current Population Survey*, the metropolitan median-income data from the U.S. Department of Housing and Urban Development, and the occupational average wage data from the U.S. Bureau of Labor Statistics' *Occupational Employment Statistics Survey*. Data on qualifying income for purchasing the median-priced home comes from the National Association of Realtors, Federal Housing Finance Board, and the U.S. Bureau of the Census.

[27] The qualifying income calculation is based on a 28 percent qualifying ratio for monthly housing payment (principal, interest, taxes, and insurance, or P.I.T.I.) to gross monthly income.

[28] It is assumed that first-time homebuyers have 10 percent down payment and repeat buyers have 20 percent. The mortgage interest rate is assumed to increase by 0.5 percentage-points yearly.

Exhibit 3-4 presents the homeownership affordability ratios among first-time homebuyers for all 11 metropolitan areas in the study. Based on the Fannie Mae analysis, a middle-class homebuyer in Atlanta, Washington DC, Houston, and Philadelphia is able to afford a median-priced home, each having an affordability ratio below 100. Middle-class families in Chicago are just able to buy a median-priced home (ratio is 100). Families in 6 out of the 11 metropolitan areas (Boston, Denver, Los Angeles, New York, San Francisco, and Seattle) are not able to afford a median-priced home. With affordability ratios ranging from 118 to 198, middle-class families purchasing a median-priced home would need approximately 1.2 to 2.0 times the area median income to qualify for a mortgage with 10 percent down payment.

Exhibit 3-4

2000 Homeownership Affordability Ratios for First-Time Homebuyers in 11 Large Metropolitan Areas

Metro Area	Income to Qualify for a Mortgage	Median Family Income	Hispanic Median Family Income	Homeownership Affordability Ratio	Hispanic Homeownership Affordability Ratio
Atlanta [1]	$48,800	$63,100	$42,600	77	115
Washington, DC [1]	$69,300	$82,800	$50,000	84	139
Houston [1]	$48,900	$56,700	$33,000	86	148
Chicago [1]	$67,700	$67,900	$40,500	100	167
Philadelphia [1]	$52,700	$57,800	$28,000	91	188
Denver [1]	$73,600	$62,100	$36,200	118	203
Seattle	$83,800	$65,800	$40,000	127	210
Los Angeles [1]	$73,400	$52,100	$33,400	141	220
San Francisco [1]	$148,400	$74,900	$49,000	198	303
New York [1]	$88,800	$56,200	$27,600	158	322
Boston [1]	$121,200	$65,500	$29,100	185	416

1 Among the 30 metropolitan areas with the largest number of Hispanic households in the nation.

Sources: Fannie Mae, 2004

However, using 2000 IPUMS data to produce comparable income measures for Hispanic families,[29] none of these metropolitan areas are affordable to Hispanic families earning a median income. For example, the median income among Hispanics families in Atlanta is approximately $42,600, or over $20,000 less than the median family income for all families. After adjusting the affordability ratio to reflect Hispanic median family incomes, the homeownership affordability ratio increases in Atlanta to 115. This suggests that a first-time Hispanic homebuyer in Atlanta would need to earn 115 percent of the area median income to qualify for a mortgage with 10 percent down payment.

29 The Fannie Mae study uses family median-income data from the U.S. Department of Housing and Urban Development, which does not contain income data by ethnicity. In order to produce comparable median family income for Hispanics, we used 2000 IPUMS data for a household of four.

The large share of Hispanics in Denver, Los Angeles, and New York face even greater affordability gaps. The 2000 Hispanic median family income in these housing markets is $36,200, $33,400, and $27,600, respectively. Using these Hispanic median family incomes, the adjusted affordability ratios are 203 in Denver, 220 in Los Angeles, and 322 in New York. These extraordinarily high ratios suggest that a Hispanic median-income family would not be able to purchase a median-priced home in these markets.

As these figures suggest, housing affordability is largely a function of the relationship between incomes and housing prices. But housing affordability among Hispanics is also affected by the degree in which Hispanics are clustered or segregated into particular residential areas. It terms of housing affordability effects, ethnic clustering and segregation perpetuates a dual housing market that, in turn, engenders supply restrictions in minority neighborhoods. A dual housing market relegates Hispanics and other minorities to neighborhoods near the city core, which are characterized by older, low-quality, multi-unit housing that is less suitable for ownership (Rosenbaum, 1994, 1992; Harding, Rosenthal, and Sirmans, 2004). Multifamily buildings have less appeal for ownership because they offer less privacy, higher management costs to coordinate the activities of all owners, and less control since all owners must agree on maintenance and renovation investments. These structural characteristics diminish homeownership opportunities among Hispanics and other minorities and lead to higher housing prices. A shrinking affordable housing stock has also been associated with neighborhood gentrification, limited incentives and financing for affordable housing development, zoning regulations that restrict the development of multi-family units, and environmental regulations that increase building costs (Congressional Hispanic Caucus Institute, 2004).

The impact of supply constraints on Hispanic homeownership appears to be far-reaching, affecting rural areas as well as major cities (although only 2 percent of Hispanics households live in rural areas). In a national study of housing for rural farm workers, one-third of the housing was moderately or severely substandard. Researchers found that many of the housing units lack proper kitchen or bathroom facilities and have significant structural damage (Council of Economic Advisers, 1998). These structural characteristics diminish both the well being of Hispanics and opportunities for homeownership.

Racial and Ethnic Discrimination in the Housing Market

Racial and ethnic discrimination in the housing market has been researched extensively, although mostly with a focus on black households.[30] The nature and impact of discrimination among Hispanics is less understood. In theory, discriminatory practices confronted by blacks similarly apply to Hispanics. For example, during the homebuying process both Roychoudhury and Goodman (1996) and Ondrich *et al*. (1998) suggest that a real estate agent may discriminate against minorities by:

- limiting information that is shared with a potential homebuyer about available housing units or neighborhood amenities;
- limiting the number of housing units shown to and inspected by a potential homebuyer;

[30] For a more thorough summary of the literature on racial discrimination in the housing market, see Herbert *et al*., 2004.

- limiting information about financing, available financial and mortgage products, and referrals to mortgage professionals;
- limiting the ongoing encouragement or assistance offered to the potential homebuyer; and
- steering households to certain types of neighborhoods based on the potential homebuyer's socioeconomic and racial characteristics (e.g., the real estate agent may steer minority households towards predominantly minority or integrated neighborhoods and white households to predominantly white neighborhoods).

These researchers suggest that minorities are oftentimes treated differently in the homebuying process when compared to whites, which explains in part why minorities tend to be segregated residentially and less likely to be homeowners. To study the extent of differential treatment, studies rely on paired testing techniques. In a paired test, two individuals pose as identical homebuyers except one is a minority and the other is white. The two individuals visit real estate agents to inquire about available housing opportunities. The paired test methodology reveals whether real estate agents treat minorities differently than Whites during the housing search process.

The 2000 Housing Discrimination Study (HDS 2000) sponsored by HUD and conducted by Turner *et al*. (2002b) is the largest paired-test study to date. The study is based on 4,600 paired tests conducted in 23 metropolitan areas nationwide.[31] Based on the Hispanic/white paired tests,[32] Turner *et al*. find that discriminatory treatment experienced by Hispanic homebuyers has declined since 1989, but many Hispanics still face significant levels of discrimination. Reflecting the stages of homebuying highlighted by Roychoudhury and Goodman (1996) and Ondrich *et al*. (1998), Turner *et al*. focus on five critical aspects of the interaction between a potential homebuyer and a real estate agent:

1. Information in response to inquires about the availability of an advertised home or other similar home;
2. Ability to inspect the advertised home or similar home;
3. The types of neighborhoods where homes were made available to homeseekers;
4. Assistance from real estate agents on mortgage financing options; and
5. Extent to which real estate agents help the homeseeker complete the transaction.

Exhibit 3-5 presents the overall results from Turner *et al*. for each indicator. The overall consistency indicator – a measure of the extent to which the different forms of treatment consistently favor one

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31 The study conducted paired tests for both rental and sales markets. We focus on the findings from the sales market. Also, of the 23 metropolitan areas, Hispanic only paired tests were conducted in 4 metropolitan areas: San Antonio, Pueblo, San Diego, and Tucson. Both black and Hispanic paired tests were conducted in 6 different metropolitan areas: Los Angeles, New York, Chicago, Houston, Denver, and Austin. Black only paired-testing was conducted in the remaining 10 metropolitan areas.

32 The paired testers were assigned similar characteristics, which included: number of bedrooms desired by the household; geographic preference; reason for moving; household income (monthly and annually); employment history; household assets and debts; credit status; and tenure at current residence.

tester over the other – suggests that non-Hispanic whites were consistently favored in 19.7 percent of tests and Hispanics were favored in 12.3 percent of the tests. The net consistency measure, which is the difference in favorable treatment between whites and Hispanics (7.4 percent), is statistically significant, indicating that non-Hispanic whites were significantly more likely than Hispanics to be consistently favored throughout the home search process. The net consistency measure dropped slightly (3.0 percentage points) from 1989, although the decrease is not statistically significant.

Exhibit 3-5

Differential Treatment Among Non-Hispanic White Homeseekers and Hispanic Homeseekers, 2000

Overall Indicator	% Non-Hispanic White Favored	% Hispanic Favored	Net Measure	Change Since 1989, Net Measure
Housing availability	46.3%	44.4%	1.9%	-10.5%*
Housing inspection	38.3%	40.9%	-2.6%	-14.7%*
Geographic steering - inspected	14.7%	9.7%	5.0%*	3.5%
Financial assistance	38.6%	24.2%	14.4%*	13.1%*
Agent encouragement	30.6%	27.5%	3.1%	-14.5%*
Overall consistency measure	19.7%	12.3%	7.4%*	-3.0%

* Indicates significance in net measure and change in net measure at the 95% level (using a two-tailed test).

Sources: Turner et al. (2002b), pp. 3-17 through 3-19.

Focusing on the indicators that revealed differential treatment among homeseekers, non-Hispanic whites received more favorable treatment than Hispanics in terms of receiving information about home financing (Financial Assistance) and inspecting homes in predominantly non-Hispanic neighborhoods (Geographic Steering). The issue of Financial Assistance was the area of greatest disparity in treatment between whites and Hispanics, with 14.4 percent of whites receiving more favorable treatment on net. The Financial Assistance indicator is based on a range of treatments. More specifically, real estate agents were significantly more likely to offer non-Hispanic whites help with financing (22.2 percent of Non-Hispanic white-favored, 10.5 percent Hispanic-favored); recommend lenders (19.6 percent of Non-Hispanic white-favored, 12.8 percent Hispanic-favored); and to discuss down payment requirements (24.9 percent of Non-Hispanic white-favored, 15.4 percent Hispanic-favored). This is the one area where discriminatory treatment of Hispanics was statistically significantly worse than in 1989, with the net measure for systematic discrimination in financing assistance increasing by 13.1 percent points.

The other indicator where non-Hispanic whites were favored was in Geographic Steering. In 14.7 percent of paired tests, non-Hispanic whites were shown homes in less predominantly Hispanic areas, compared to 9.7 percent of Hispanics. The 5 percentage point difference in treatment is statistically significant, although the net measure of discrimination did not change significantly since 1989. This finding suggests that Hispanic homeseekers are slightly more likely to be directed to neighborhoods that primarily consist of minority households.

However, Turner *et al*. also found that Hispanic and non-Hispanic white homebuyers received comparable treatment along several other indicators in the housing search process, including: receiving information about available housing opportunities; the number of housing inspections by the potential homebuyer; and real estate agent encouragement. On several measures, Hispanics were treated more favorably than non-Hispanic whites. For example, Hispanics were more likely (15 percent) to be given information on an advertised unit and inspect more units (38.1) than non-Hispanic whites (12 percent and 35.7 percent). Since 1989, the change in the net measure across each of these indicators decreased significantly. Thus, there were several areas where discriminatory treatment of Hispanics appears to have eased since 1989.

These results varied somewhat by metropolitan region. Hispanic homeseekers face higher levels of discriminatory behavior by real estate agents in New York City and Austin, Texas. Levels of discriminatory treatment were similar to national patterns in Chicago, Denver, Los Angeles, San Antonio, Houston, and San Diego, while discriminatory treatment was slightly lower in Pueblo, Colorado and Tucson, Arizona.

Affordability, Discrimination and the Homebuying Process

The impact of housing affordability and discrimination on Hispanic homeownership is unclear. On the one hand, affordability concerns and the perception of discrimination may chill interest in pursuing homeownership by putting it out of reach of many Hispanic households or by making housing search excessively difficult. A Fannie Mae survey exploring issues related to minority homeownership gaps found that Spanish-speaking Hispanics were more likely than the general public or English-speaking Hispanics to have concerns about encountering discrimination in the homebuying processs (Fannie Mae, 2003), which may discourage minority households from beginning the homebuying process or shorten a housing search prematurely. Another implication may be that Hispanic households may be more likely to accept less suitable housing for their needs and pay higher housing search costs than white households (Yinger, 1997). Indeed, others suggest that Hispanics are much less likely to become homeowners due to a combination of location and discrimination that causes segregation (Flippen, 2001b; Krivo, 1986). One analysis tested whether discrimination may be less evidence among younger minorities by including interactions between minority status and age in statistical models predicting homeownership and concluded that discrimination in the housing market has not declined since 1970 (Gyourko and Linneman, 1997).

On the other hand, as discussed in Chapter 2, other studies explain most of the Hispanic homeownership gap by controlling for socioeconomic characteristics other than ethnic status, thereby suggesting that discrimination plays a limited or insignificant role in explaining homeownership gaps (Watcher and Megbolugbe, 1992; Coulson, 1999; Flippen 2001a;). These studies find some variation across the different Hispanic subgroups (i.e., Cubans, Dominicans, Mexicans, Puerto Ricans, and others). Others argue that "ethnic clustering" has a positive effect for Hispanics by improving Hispanic households' access to Spanish-speaking financial institutions, real estate agents, and dense networks of community contacts (Flippen, 2001b). The presence of Spanish speaking professionals and homeownership materials in Spanish mitigates the negative effects of poor English skills and literacy. However, Flippen cautions that such ethnic enclaves may reinforce social attachments to these neighborhoods, which may have inferior housing and services, and decrease the motivation for integration and mobility. Thus, the effect of ethnic enclaves on the life chances of their residents is also questionable.

Financial and Mortgage Market Barriers

The push to connect Hispanics, especially immigrants, with mainstream financial resources is mounting. Financial institutions view Hispanics and the influx of immigrant Hispanics as a large, growing, and relatively untapped market (Schoenholtz and Stanton, 2001; Brookings Institution, 2004). Financial institutions are currently spending millions of dollars on marketing campaigns and products that target the immigrant population. Also, community development organizations view this population as a source for promoting neighborhood revitalization and stabilization. Linking Hispanics to mainstream financial resources can help community-based organizations to promote local economic development, support small businesses, restore distressed neighborhoods, and encourage homeownership. And even police departments across the country are attempting to fight crime by encouraging immigrants to open bank accounts. Police departments are partnering with local banks to encourage immigrants to put their money into bank accounts, thus reducing immigrants' vulnerability to criminals who prey on unsuspecting immigrants (Brookings Institution, 2004).

Despite this growing interest, connecting Hispanics to mainstream financial institutions has been challenging and is a significant barrier to Hispanic homeownership. In particular, obtaining mortgage financing is a critical, albeit difficult, stage in the home-buying process and is guided by the mortgage industry's three "C"s: creditworthiness, capacity, and collateral.[33] Collectively, these measures constitute a borrower's overall credit and determine whether a borrower will qualify for a loan. Hispanic borrowers, however, face several barriers to performing well on these measures, and thus have problems qualifying for mortgages. These barriers, each of which is discussed in turn below, include:

- Poor credit history;
- Low wealth and income;
- Lack of proper documentation; and
- Racial and ethnic discrimination in mortgage lending.

Poor Credit History

Recent evidence suggests that many Hispanics have poor credit, which hinders their ability to become homeowners. In a recent study, Bostic *et al*., (2004) use data from the Survey of Consumer Finance (1989, 1995, 1998, and 2001 surveys) to assess the trends in credit quality across various segments of the U.S. population stratified by demographic characteristics, and also quantifies the extent to which credit quality constraints play an important role in a household's decision to pursue homeownership opportunities. The researchers identify an individual as constrained by credit if their score is below

[33] Creditworthiness is a measure of what kind of credit the borrower has been extended in the past and whether or not that credit was paid in a timely fashion. Capacity is an income-to-debt measure that gauges a borrower's ability to afford a loan. Collateral is a measure of the size of the borrower's down-payment.

660 (or the 25th percentile of the score distribution).[34] Overall, the study suggests that median scores across all individuals in the national sample increased from 721.3 in 1989 to 730.1 in 2001. The percentage of individuals who are credit-constrained also increased slightly, from 19.3 percent to 24.5 percent during the study period.

However, these marginal increases for the total national sample mask the results for Hispanics. The median score among Hispanics decreased from 695 in 1989 to 670 in 2001. The proportion of Hispanics who fell below the 660-threshold increased significantly from 25.4 to 48.5 during the same time period. Moreover, these results are especially dramatic for Hispanic renters. The predicted score decreased significantly for Hispanic renters from 685.2 to 623.7, and the proportion of credit-constrained Hispanics increased dramatically from 20.5 percent to 63.3 percent. These results varied among Hispanics renting in central cities, suburbs, and rural areas, but the trends are consistent. For example, the average scores among Hispanic renters living in central cities and rural areas dropped significantly from 681.3 and 689.3 in 1989 to 624.7 and 624.0 in 2001. For these same groups, the proportion of individuals who are considered uncreditworthy increased from 27.1 and 6.7 percent to 63.1 and 62.2 percent. These findings are corroborated by the regression results and suggest that fewer Hispanics, especially renters, are viewed as creditworthy and many more are likely to be subject to more extensive reviews, which could potentially deter them from considering homeownership or completing the homebuying process. However, the study does not shed any light on the cause of these trends. Among the possibilities offered by the authors are that the increase in homeownership has creamed the highest credit quality renters among low-income and minority groups, deteriorating the average credit quality among remaining renters. The authors also speculate that changes in the characteristics of recent immigrants, who are more likely to be renters, may have contributed to the deterioration of credit quality among renters.

These findings are echoed, albeit less pronounced, in an earlier study that estimates how much homeownership rates might increase for various subgroups of the population if all borrowing constraints were eliminated but households otherwise keep to their budget constraints (Rosenthal, 2001). The study makes use of a set of survey questions from the 1998 Survey of Consumer Finances that enables the researcher to identify individual households that perceive themselves to have been subject to binding credit barriers of any type (mortgage, auto credit, consumer credit, etc.). Then, controlling for sample selection, the researcher estimates the demand for homeownership among families not subject to credit barriers and uses the results to predict the demand for homeownership for the entire sample. Comparing predicted to actual homeownership rates provides an estimate of the influence of credit barriers on homeownership.

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[34] The researchers had access to a data set that included credit scores and a variety of household characteristics. Using these data, they developed a statistical model to predict a credit score using household characteristics that were available in the Survey of Consumer Finance (SCF), including detailed information on assets and liabilities, use of financial services, income, housing status (renter and homeowner), and demographic characteristics (age, years of education, martial status, number of dependents, and race and ethnicity). They then applied the estimated model to SCF survey in each of the four years. The SCF for these four years contains information for over 200,000 individuals and provides. The cutoff of scores below 660 to represent those who are credit constrained is based on the authors review of information on the use of credit scores by mortgage lenders as reported by Fair Issac Corporation at www.ficoguide.com.

For the full sample, the results indicate that the overall homeownership rate would be 4.03 percentage points higher in the absence of credit constraints. However, the impact of credit barriers on homeownership varied by subgroups in the sample. Among Hispanics, eliminating borrowing constraints is predicted to raise Hispanic homeownership by 6.72 percentage points, which is more than any other racial-ethnic subgroup in the study.[35]

Poor credit has consistently been identified in focus group research as a primary barrier to Hispanic homeownership (Congressional Hispanic Caucus Institute, 2004; Bendixen and Associates, 2004; Fannie Mae, 2003). These studies suggest that the confluence of numerous factors contribute to this barrier. One factor is a lack of experience with financial establishments and understanding of how to build and maintain a good credit rating, which was discussed above. Another is the fact that assessing credit history is reliant on a history with credit payments, which currently does not include utility or rent payments; and some Hispanics – especially immigrants, the unbanked and undocumented – pay for goods and services in cash, which does not contribute to a traditional credit assessment.

Low Wealth and Income

The mortgage approval process also relies heavily on a borrower's wealth and annual income to demonstrate capacity and collateral. A study by the Pew Hispanic Center (2004) analyzes data from the Survey of Income and Program Participation and the Survey of Consumer Finances to describe the net worth of Hispanics between 1996 and 2002. The study demonstrates that Hispanic (and black) households are extremely vulnerable to economic downturns since their low net worth cannot protect them from short-term recessions or spells of unemployment. Overall, Hispanics have less than ten cents in wealth for every dollar owned by a non-Hispanic white household.

Exhibit 3-6 presents the median net worth among Hispanic and non-Hispanic households by tenure from 1996 and 2002. The median net worth of all Hispanics increased by 14 percent from $6,961 in 1996 to $7,932 in 2002. Net worth increased throughout the time period until the recession of 2001 and rebounded thereafter to 1997 levels. However, as would be expected, Hispanic renters have dramatically less net worth than homeowners. Among Hispanic renters, median net wealth rose 32 percent over the period, but was still only $762 in 2002. By comparison, during the same period the median net worth among non-Hispanics increased 16 percent, from $59,786 to $69,305, nearly nine times the net wealth of all Hispanics. Non-Hispanic renters also had significantly lower net worth than homeowners, although non-Hispanic renters had about twice the net worth of Hispanic renters in 2002.

Another indication of the degree to which Hispanics are wealth constrained is to consider the share of households with zero or negative net wealth. The Pew Hispanic Center study finds that as of 2002 26.0 percent of Hispanics had no positive wealth compared to 13.1 percent of whites.

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[35] Rosenthal (2001) also summarizes the influence of credit barriers on homeownership rates by income category, but not by income category and race/ethnicity. Among families in the upper half of the income distribution credit barriers have little or no discernible effect on homeownership rates. However, credit barriers depress homeownership rates by roughly 7 percentage points among individuals in 10^{th} to the 50^{th} income percentile, and 11 percentage points in the bottom income decile.

Exhibit 3-6

Median Net Worth ($) Among Hispanic and Non-Hispanic Households, 1996-2002

Household	1996	1997	1998	1999	2001	2002
Hispanic						
Renters or others	578	570	337	545	774	762
Homeowners	56,767	53,614	49,485	57,928	57,376	62,839
All Hispanics	6,961	7,801	7,167	10,495	6,213	7,932
Non-Hispanic						
Renters or others	2,264	1,935	1,914	2,059	1,816	1,526
Homeowners	111,141	115,222	117,070	123,175	126,261	129,778
All non-Hispanics	59,786	61,171	62,179	67,692	68,248	69,305

Sources: Pew Hispanic Center (2004) tabulations of SIPP data.

There is some evidence that a lack of greater connection to financial institutions may limit wealth accumulation among Hispanics. Exhibit 3-7 presents asset ownership rates for Hispanic and non-Hispanic households from 1996 to 2002. The most common assets among both Hispanic and non-Hispanic households are a car and a house, although there are wide disparities in the proportion of households that own these assets. But perhaps the most striking disparity is reflected in the proportion of households with interest earning accounts at financial institutions (includes interest-earning checking accounts, savings accounts, money market accounts, and certificates of deposit). In 2002, 69 percent of non-Hispanic white households report owning an interest-earning account compared to 42 percent of Hispanics, which is nearly a 30 percentage-point gap. Ownership rates for non-interest bearing checking accounts are low for both Hispanic (30 percent) and non-Hispanic white (36 percent) households.

Ownership rates for other financial assets are particularly low for Hispanic households. Less than 10 percent of Hispanics own U.S. savings bonds, IRA or Keogh accounts, or stocks or mutual funds, and less than one-fifth own a 401k or Thrift account. Over 10 percent of Hispanics report owning no assets other than unsecured liabilities. These findings suggest that few Hispanic are saving for retirement, and many have debt but no positive asset position. By contrast, over one-third of non-Hispanic white households own stocks or mutual funds, or 401k or Thrift accounts, and 30 percent have IRA or Keogh accounts. Very few non-Hispanic white households (less than 3 percent) report owning no assets other than unsecured liabilities. However, Hispanic households are slightly less likely to own unsecured debt (46 percent) than non-Hispanic white households (53 percent).

Exhibit 3-7

Asset Ownership Rates (%) Among Hispanic and Non-Hispanic Households, 1996-2002

Exhibit 3-7

Asset Ownership Rates (%) Among Hispanic and Non-Hispanic Households, 1996-2002

	Hispanics			Non-Hispanic White		
Asset	**1996**	**2002**	**%Change**	**1996**	**2002**	**%Change**
Own home	44.2	47.3	3.1	71.0	74.3	3.3
Rental property	2.9	2.2	-0.7	6.5	5.2	-1.3
Other property	3.4	2.3	-1.1	8.4	7.9	-0.5
Interest earning assets	40.7	42.4	1.7	70.9	69.0	-1.9
Other interest earning assets	0.5	0.7	0.2	5.1	3.9	-1.2
Checking accounts	32.3	29.9	-2.4	41.6	36.3	-5.3
U.S. saving bonds	5.3	4.3	-1.0	19.6	15.2	-4.4
IRA & Keogh accounts	6.8	7.1	0.3	24.5	29.4	4.9
401k & Thrift accounts	13.4	18.5	5.1	27.8	34.5	6.7
Stocks & mutual funds	8.3	9.4	1.1	32.3	35.0	2.7
Businesses	7.8	7.7	-0.1	12.7	13.1	0.4
Vehicles	74.7	78.7	4.0	89.4	88.4	-1.0
Other assets	2.1	1.2	-0.9	6.1	3.8	-2.3
Unsecured liabilities	51.2	45.5	-5.7	58.2	53.1	-5.1
Do not own assets [1]	14.9	10.5	-4.4	2.3	2.5	0.2

[1] Other than unsecured liabilities.

Sources: Pew Hispanic Center (2004) tabulations of SIPP data.

Exhibits 3-6 and 3-7 suggests that homeownership is an enormous part of a household's asset portfolio. Indeed, according to the Pew Hispanic Center study, the *average* net worth among all Hispanics is $65,371 (in 2003 dollars) and 61 percent of their mean net worth is in the form of home equity. Interest earning assets represented less than 6 percent of their mean net worth, and checking accounts for under 1 percent. Rental property, 401k or Thrift accounts, and stocks or mutual funds each represented about 7 percent of the Hispanic mean net worth. By comparison, the mean net worth among non-Hispanic white households ($221,871) is less tied directly to home equity. About 39 percent of the average net worth is associated with home equity, 22 percent is in the form of stocks and mutual funds, and about 7 percent each in interest-earning accounts, IRA and Keogh accounts, and 401k and Thrift accounts.

The results from the Pew Hispanic Center are supported by other research that has been able to quantify net worth by ethnic groups. In an analysis of the Census Bureau's Survey on Income and Program Participation data from 1996 to 2000, Paulson and Osili (2003) suggest that Hispanic immigrants are 4.1 and 3.8 percentage point less likely to own stock or have a savings account compared to native-born residents, all else equal. Stock market participation and the likelihood of having a savings account increased sharply with education. Being married has a strong positive impact on the likelihood of having a savings account, although the presence of children lowers this probability (0.6 percentage points for each additional child). These researchers attribute these differences to the "institutional quality" of their home country, which measures the extent to which the country protect private property and provides incentives for investment. Hispanic immigrants from countries with higher levels of institutional quality (e.g., Mexico) tend to have more net worth than immigrants from countries with lower levels of institutional quality (e.g., El Salvador).

Exhibit 3-8

Median Net Worth ($) and Homeownership Rates (%) of Hispanic and non-Hispanic Households by Monthly Income Quintile, 2002

	Hispanics		Non-Hispanic	
Income Quintile[1]	Median Net Worth	Homeownership Rate	Median Net Worth	Homeownership Rate
First	1,218	26.8	7,963	48.5
Second	4,466	38.5	40,194	62.3
Third	9,629	52.6	57,080	70.4
Fourth	38,402	64.4	90,361	80.2
Fifth	79,401	72.9	195,018	87.0
All households	7,932	47.3	69,305	70.0

[1] Monthly income quintiles were estimated from the 2001 SIPP panel and were as follows: less than or equal to $1,380; $1,380 to $2,552; $2,552 to $4,020; $4,020 to $6,434; and more than $6,434.

Sources: Pew Hispanic Center (2004) tabulations of SIPP data.

The low wealth accumulation among Hispanic households is explained in large part by the demographic characteristics discussed in Chapter 2. Many Hispanics are foreign born, are younger and less educated, and earn less than non-Hispanic households. All of these factors are correlated significantly with less wealth accumulation. Annual income, in particular, is a strong predictor of both wealth accumulation and homeownership. Exhibit 3-8 shows a steep increase in median net worth and homeownership rates as incomes increase for both Hispanic and non-Hispanic households. Among Hispanics, a sharp increase in median net worth occurs after the third quintile. Hispanics in the fourth income quintile have four times more wealth than Hispanics in the lower quintile. However, the sharp increase is not associated with an unusually large increase in homeownership rates.

Low wealth among Hispanics also is affected by large remittance flows to relatives living in immigrant's home country. Some consider the funds that immigrants send to Latin America and the Caribbean as more important to these region's economic and social development than foreign direct investment, portfolio investment, foreign aid, or government and private borrowing.[36] For example, remittances to Central America doubled from $1.8 billion in 1996 to $3.6 billion in 2001, compared

[36] According to the data collected from the Inter-American Development Bank, remittances account for 30 percent, 15 percent, and 12 percent of the GDPs of Nicaragua, El Salvador, and Honduras, respectively.

to an estimated $2.0 billion in foreign direct investment and $2.1 billion in official development assistance[37] in 2001 (Inter-American Dialogue, 2004).

While the exact scale of this flow is unclear, it is undoubtedly significant. According to one estimate, immigrants living in the U.S. sent $25 billion to relatives living in Latin America and Caribbean countries, and total remittances grew by 19 percent between 2002 and 2003 (Brookings Institution, October 2004). Others estimate that immigrants send more than $30 billion per year, which is over $2,500 per year for each Hispanic household in the U.S. (Pew Hispanic Center, 2004). If that amount were saved and invested in the U.S., the impact on Hispanic household wealth would be significant. Finally, the Inter-American Dialogue Task Force on Remittances (2004) estimate that immigrants sent $32 billion to these regions in 2002, which increased 40 percent from 2000.

Because many Hispanics eschew relations with banks, Orozco (2004) finds that banks have captured a very small fraction of the remittance market. According to the study, the four largest banks in this field – Citibank, Wells Fargo, Harris Bank, and Bank of America – conduct less than 10,000 remittances monthly, of which the overwhelming majority go to Mexico. However, in 2003 an estimated 40 million remittance transactions occurred between the U.S. and Mexico, suggesting that U.S. banks have captured only 3 percent of the remittance market. Thus, Orozco emphasizes the potential for banks to offer remittance services to immigrants living in the U.S. and reach out to immigrants without savings or checking accounts.

Lack of Proper Documentation

Undocumented immigrants seeking a home mortgage may be denied financing because they do not have Social Security Numbers or proper proof of employment.[38] Since the 2000 Census, several credible estimates of the undocumented population have been made and are summarized in Exhibit 3-9. The U.S. Immigration and Naturalization Service estimated in 2000 that 7 million persons resided illegally in the U.S. as undocumented immigrants (U.S. Immigration and Naturalization Service, 2003). Others estimate a population in 2001 of approximately 7.8 million (Pew Hispanic Center, 2001) and even as high as 9.3 million in 2002 (Passel *et al*., 2004).

In terms of undocumented households (rather than population), Paral and Associates (2004) use data from the U.S. Citizenship and Immigration Service (formerly the INS) on the number of undocumented Hispanics and information on non-citizen, recent Hispanic immigrants captured by the 2000 decennial census to estimate the number of undocumented Hispanic householders and their characteristics. The report assumes that the decennial census captures most undocumented Hispanic immigrants and that all those who reported they were not citizens and had immigrated since 1980 are representative of undocumented Hispanic immigrants.[39] The researchers also produce estimates by

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[37] The official development assistance excludes loans from the World Bank and the International Monetary Fund.

[38] As noted at the beginning of the chapter, an undocumented Hispanic is defined as a foreign born person who is not a U.S. citizen and does not have legal immigration status and therefore is not eligible to obtain a social security number.

[39] The authors argue that a comparison of the number of legal immigrants over time with the number of self-reported immigrants captured by the decennial census supports the contention that most undocumented

income and age categories and region. The study finds that in 2000 there were nearly 1.2 million undocumented Hispanic households in the U.S., of which the vast majority were Mexican but also included 2,500 from Cuba; 28,000 from the Dominican Republic; 153,000 from Central American; and 113,000 from South America. In comparison, the 2000 decennial census identified a total of 9.2 million Hispanic households residing in the U.S. Paral estimates that most households (669,705) are in the 25 to 34 age category, followed by the 35 to 44 age category (419,633). Also, the majority of these (817,392) earn between $10,000 and $39,999 annually, although over 200,000 households earn between $50,000 and $74,999 yearly.

In addition, the study estimates the geographic location of undocumented Hispanic households by distributing their number across regions and states of the U.S. based on the location of Hispanic non-citizen renter households who entered the U.S. during the 1990s. This methodology suggests that 16.6 percent of undocumented Hispanic households are in the Northeast (mostly in New York and New Jersey), 9.9 percent are in the Midwest (especially in Illinois), 38.2 percent are in the South (predominantly in North Carolina, Georgia, Florida, and Texas), and 35.3 percent are in the West (particularly in Arizona and California).

This sizable population is effectively shut out of the homebuying process because undocumented immigrants cannot obtain valid Social Security Numbers (SSN), which, in turn, prevents them from applying for loans from mainstream lenders and for federally funded homeownership assistance programs. Indeed, focus groups conducted by the Congressional Hispanic Caucus Institute (2004) finds that lack of documentation is a significant barrier to homeownership in 7 out of 11 cities: Atlanta, Chicago, Durham, Kansas City, Los Angeles, San Antonio, and New York city. In many of these cities, focus group participants admit using false SSNs, but also state that they are unable to establish credit histories using these numbers or successfully complete the mortgage application process because the underwriting computer "will likely spit it out" (p.16).

Without valid SSNs, Hispanics also have difficulties documenting their wages and employment histories. Lenders expect documentation such as pay stubs to demonstrate sustained employment income, which is needed to satisfy the lender's assessment of the borrower's capacity. Also, because undocumented immigrants do not have valid SSNs and are thus unable to work in the formal economy, many of them work in seasonal positions and change work frequently. These Hispanics face additional challenges to documenting their income and employment histories since it is difficult to locate former employers.

Racial and Ethnic Discrimination

Racial or ethnic discrimination within the financial and mortgage market has been researched extensively, particularly among black households. Numerous studies during the 1990s focused on the incidence and severity of discrimination in mortgage lending, which are succinctly summarized by LaCour-Little (1999) and Turner and Skidmore (1999). These summaries suggest that race and

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individuals are largely reported in the census. More specifically, Paral and Associates note the estimated undercount of Hispanics in the 2000 census is 2.85 percent, including both natives and immigrants. However, Census Bureau analysis of the undercount suggests that the foreign born have a higher undercount rate (Robinson, 2001).

ethnicity has a significant effect on whether a household is rejected for a home loan, even after controlling for a variety of demographic and economic indicators. A few studies are particularly noteworthy.

The HUD-sponsored Housing Discrimination Study 2000 (HDS 2000) conducted by Turner *et al.* (2002b) used paired tests to demonstrate that real estate agents treated non-Hispanic whites more favorably than Hispanics in terms of receiving information about home financing assistance. Similarly, Turner *et al*. (2002a) applied the paired-testing approach in both Chicago and Los Angeles to investigate whether minorities (blacks and Hispanics) receive the same treatment and information as whites during the pre-application phase of the mortgage application process. Testers posed as first-time homebuyers and visited mortgage lending institutions[40] requesting help in identifying a price range for housing, determining a loan amount for which he or she would qualify, and finding appropriate loan products. The paired-testers were assigned financial profiles that would allow them to purchase a median-priced house in their metropolitan area, but were also asset constrained and had minor problems with their credit histories. Like the HDS 2000 study, the paired testers were assigned identical financial and household characteristics, although the minority tester was always slightly better qualified than the white tester.

The study focused on six key questions:

1. Did testers receive the information they requested?
2. How much were testers told they could afford?
3. How many loan products were testers told about?
4. How much “coaching” did testers receive?
5. Did testers receive follow-up contact?
6. Were testers encouraged to consider FHA?

The tests revealed statistically significant patterns of unequal treatment that systematically favored whites. Exhibit 3-9 summarizes these findings. In terms of statistically significant findings, Hispanics in Chicago were quoted lower loan amounts and house prices, told about fewer products, and offered less coaching than their non-Hispanic white counterparts. For example, non-Hispanic whites were quoted higher loan amounts and house prices over 50 percent of the time, but Hispanics were favored less than 20 percent of the time. Whites were also told about more loan products 56 percent of the time compared to 28 percent among Hispanics. Non-Hispanic white were also given more assistance on how they can improve their qualifications as borrowers 41 percent of the time, while Hispanics were favored only 15 percent of the time.

[40] The study use a representative sample of mortgage lending institutions in each metropolitan area that report under the Home Mortgage Disclosure Act.

Exhibit 3-9

Differential Treatment Among Non-Hispanic White Homeseekers and Hispanic Homeseekers, in the Pre-Application Phase of the Mortgage Application Process

Overall Indicator	Chicago		Los Angeles	
	% non-Hispanic White favored	% Hispanic Favored	% non-Hispanic White Favored	% Hispanic Favored
Information provided	7.5	8.8	12.7	1.3**
House they could afford				
Maximum loan amount	51.9	19.2**	42.9	32.7
Maximum house price	51.0	13.7**	44.0	30.0
Number of products	55.6	27.8**	51.9	34.6
Received positive coaching	40.5	15.2*	39.2	36.7
Received follow-up	7.6	13.9	6.3	13.9
FHA encouraged	13.0	13.0	15.0	30.0

* indicates significance at the 90% level or higher.
** indicates significance at the 95% level or higher.

Sources: Turner et al. (2002a), pp. 25 through 35.

In Los Angeles, Hispanics were given less information about loan amount and house price, and informed about fewer products. However, Hispanics received more follow-up compared to their non-Hispanic white counterparts. For example, non-Hispanic white testers were given more information 13 percent of the time compared to 1.3 percent among Hispanics. In terms of the number of loan products discussed, the incidence of favoritism was statistically insignificant but the study found that differences in the number of products discussed were significant, with non-Hispanic whites told about an average of 2.92 products compared to only 2.33 products among Hispanics. Similarly, although the incidence of follow-up among the testers was not statistically significant, the average number of contacts among whites (0.19) was statistically *lower* than that of Hispanics (0.38).

Thus, the paired-testing conducted in Chicago and Los Angeles suggest that Hispanics face significant risks of receiving less favorable treatment when visiting mortgage lending institutions than whites, although the differences were much larger in Chicago than Los Angeles. As a result, discriminatory treatment at the early stages of the mortgage application process potentially discourages some Hispanics from continuing their housing search, limits their search to lower cost homes than they could actually afford, and prevent them from choosing the most favorable loan products (Turner *et al*., 2002a, p. 40).

Discrimination in mortgage lending was also the focus of an earlier study that supplemented Home Mortgage Disclosure Act data in Boston with specific information on the financial, employment, and property characteristics of that were relevant to a lending decision (Munnell *et al*., 1996). With the support of the Federal Reserve Bank of Boston and other federal supervisory agencies, the researchers worked with lending institutions to collect the additional information to supplement that publicly reported under HMDA. The goal of the study was to assess the importance of race and ethnicity in the rate of loan denials among black and Hispanic applicants[41] compared to whites.

The results demonstrate that even after controlling for the usual mortgage underwriting criteria, minorities were more likely to be rejected for a mortgage than whites. The study did confirm that Minority applicants differ from white applicants in several important ways. Minority applicants have considerably less net wealth, liquid assets, and income than white applicants and they also have poorer credit histories. Black and Hispanic applicants also make lower down payments and have higher loan-to-value ratios than whites. These disadvantages in the loan application process accounted for a large portion of the difference in denial rates—but not all of the difference. The disparity between minority and white denials decreased from 18 percentage points to just over 8 percentage points, or a relative rejection ratio of 1.8 to 1, after controlling for these economic and property characteristics. Put differently, minority applicants with identical economic and property characteristics as white applicants would experience a rejection rate of 28 percent compared to only 20 percent for white applicants (Munnell *et al*., 1996, p. 26).

The study also divided the sample into lenders with a high volume or low volume of loans made to minorities to determine if loan denial disparities among whites and blacks and Hispanics differed by the size of the lending institution. The study found that race was an important explanatory factor for both types of lenders. Thus, the study concludes that financial characteristics of applicants plays a significant role in explaining loan denial disparities between whites and minorities, but differential treatment based on race and ethnicity was evident in the mortgage market.[42]

These quantitative studies have been supported by qualitative research. For example, Temkin *et al.* (1999)[43] conduct an in-depth case study of a moderately-sized lending institution[44] based on detailed interviews with staff and a review of their HMDA loan data. According to the case study, loan officers (a third of whom were Hispanic) and senior staff all spoke about the importance of fairness and the efforts to make sure that all qualified households were able to qualify for loan. However, the institution's data showed that Hispanics were 2.5 times more likely to be denied a loan than whites, which was a considerably higher denial rate than the average rate within that Metropolitan Statistical Area (MSA), even after controlling for an applicant's income and loan product. These researchers

41 The study combines black and Hispanic applicants into a single minority category in the analysis.

42 These findings should be interpreted with some caution. Critics have pointed to potential problems with omitted variables, data errors, assumptions in their predictive equation, and disentangling endogenous explanatory variables from minority status (for example, see Zandi, 1993; Liebowitz, 1993; Horne, 1994, and Day and Liebowitz, 1994). Nevertheless, a reanalysis conducted by Ross and Yinger (1999) suggest that the study's findings have emerged intact in the face of most of this scrutiny and that the large differences in loan denial rates between minority and white applicants cannot be explained away by these issues (see Turner *et al*., 1999).

43 In Turner, M. and Skidmore, F. (eds.) "Mortgage Lending Discrimination: A Review of Existing Evidence" Urban Institute June 1999

44 The mortgage company was founded in 1991, has 31 employees, originates approximately 1,000 mortgages yearly (worth about $70 million), and nearly all mortgages are for home purchases. The lender operates in a large city and processes more minority applications, as a proportion of the company's total volume, than the average for the metropolitan area.

could not quantitatively pinpoint a reason for the discrepancy between the reported fair treatment of all applicants by staff and the lender's high denial disparities suggested by their HMDA data but offered three possible explanations: (1) the possibility that a higher rate of unqualified minority applicants applied at this institution; (2) HMDA-based data may be too imprecise to measure discrimination and may generate "false positives"; and (3) the lending institutions staff may have good intentions, but lack training, monitoring, or feedback mechanisms that ensure fair treatment.

After reviewing the lender's managerial practices and procedures, the researchers conclude that the lender fell short of implementing numerous fair lending practices that could have reduced the possibility of differential treatment of minority loan applications. Specifically, the lender failed to:

- include the goal of fostering minority lending in the institution's overall mission statement or similar document;
- involve senior management in developing, implementing, and monitoring the minority lending goals;
- reward (or at least not indirectly penalize) employees for fostering minority lending;
- practice staff recruitment and promotion to foster minority lending through ethnic and racial diversity of staff;
- provide training on fair lending practices and multicultural interactions;
- conduct outreach to minorities;
- self-monitor fair lending performance; and
- designate an ombudsman or comparable employee to receive and review fair lending complaints (Temkin *et al*., 1999, pp. 150-152).

Financial and Mortgage Market Barriers and the Homebuying Process

As this section suggests, poor credit histories, low wealth and income, lack of proper documentation, and the potential for racial and ethnic discrimination in mortgage lending represent major barriers to Hispanic homeownership. Poor credit can depress homeownership rates by delaying access to homeownership opportunities through more extensive lender reviews or by permanently excluding credit-constrained families from owning. The former situation may prompt some Hispanics to feel frustrated with the mortgage application process and give up, and the later situation may further the perception among Hispanics that homeownership is an unaffordable opportunity.

Hispanics are also dissuaded from pursuing homeownership or prevented from owning a home by the large proportion of households with extremely low (and even negative) net worth, which is associated with low or seasonal incomes and by large remittance flows to relatives living in Latin America or the Caribbean. Lender's justifiably reject applicants that have very little (or no) capacity to repay the loan. The immigration status of some Hispanic further deters Hispanic from obtaining a mortgage because undocumented immigrants cannot obtain valid Social Security Numbers (SSN), which, in turn, prevents them from applying for loans from mainstream lenders and for federally funded homeownership assistance programs.

Lastly, racial and ethnic discrimination can limit the housing search and the likelihood that a Hispanic applicant will be approved for a mortgage loan. When lenders provide Hispanics with less information about loan amounts, house prices, loan products and offered less coaching than non-Hispanic white counterparts, it would be expected that at least some Hispanics will choose to opt out of the homebuying process.

Summary of Findings

This chapter discussed three categories of barriers to homeownership that many Hispanics confront: barriers associated with information gaps about the homebuying process, barriers in the housing market, and barriers in the mortgage application process.

Information gaps about the homebuying process, the importance of establishing a financial history, and the mortgage qualification process may dissuade many Hispanics from pursuing homeownership either because their misconceptions about the process lead them to believe that homeownership is unaffordable or too complicated, that banks are untrustworthy, or that they do not qualify for a mortgage due to their credit history. Information gaps also undermine Hispanics' confidence in completing the homebuying process.

Confidence in completing the homebuying process is further affected by affordability challenges faced by Hispanics in many markets and feelings of discrimination in the housing market. Housing affordability concerns and the perception of discrimination may chill interest in pursuing homeownership by putting it out of reach of many Hispanic households or by making housing search excessively difficult. These fears are exacerbated by poor credit histories, low wealth and income, lack of proper documentation, and the potential for racial and ethnic discrimination in mortgage application process. Hispanics with poor financial characteristics feel frustrated with the mortgage application process and give up or view homeownership as an unaffordable opportunity. Racial and ethnic discrimination in the mortgage application process can limit their search for housing search and even shut out Hispanics altogether.

Although these barriers may seem formidable, communities across the country have developed local programs – some basic and others highly innovative – that have successfully moved Hispanic households into homeownership. In general, these programs mix education counseling, affordable housing strategies and enforcement of fair housing laws, and innovative loan products to provide greater homeownership opportunities to Hispanic households. The next chapter discusses these programs in more detail.

Chapter 4
Promoting Hispanic Homeownership

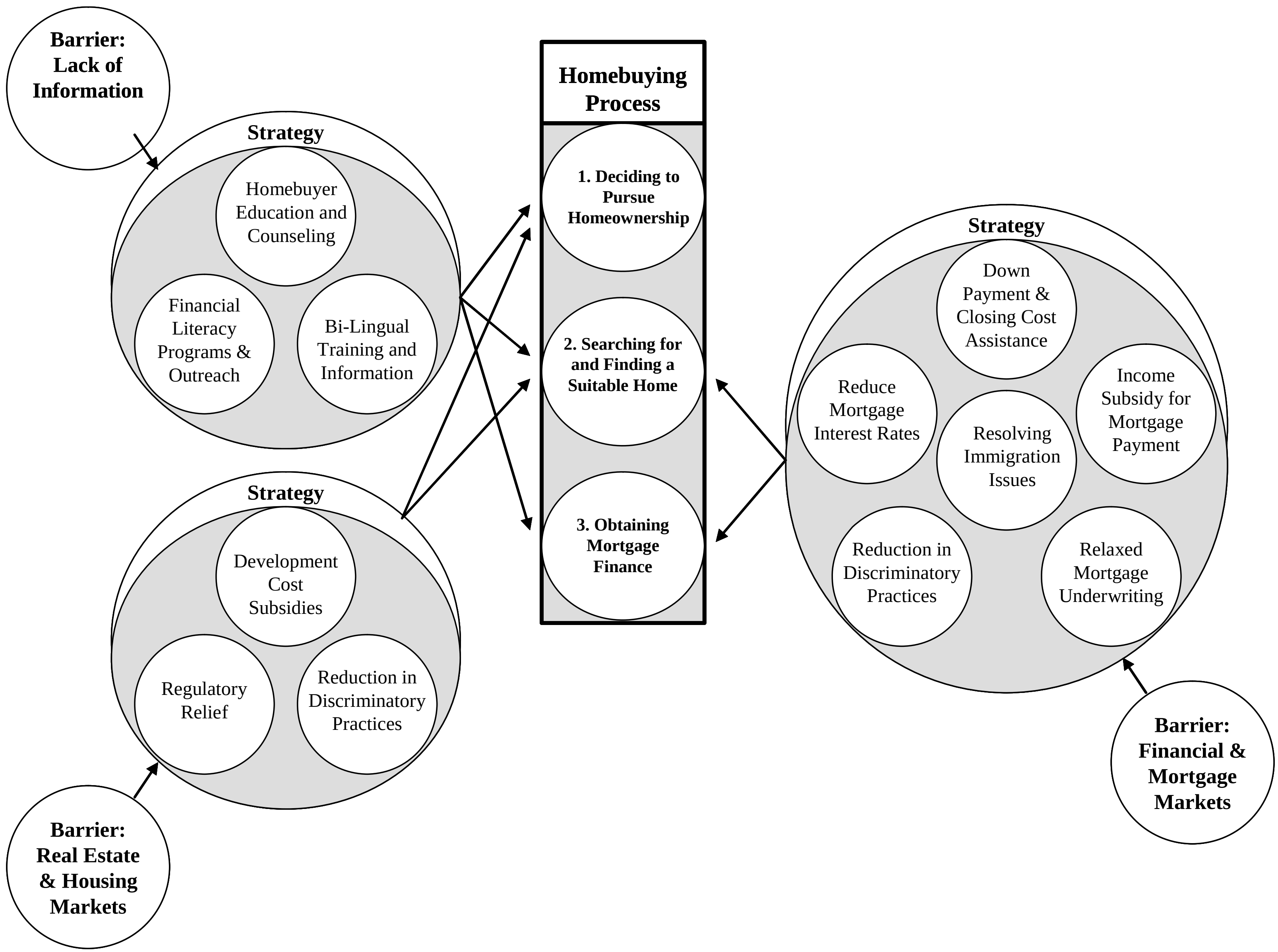
The persistent gap in homeownership rates between Hispanics and non-Hispanic whites has motivated both national and local stakeholders to explore strategies for overcoming the barriers faced by Hispanics. At the national level, there are no Hispanic-specific homeownership programs. Programs targeted to individual minority groups would undoubtedly violate federal laws that prohibit discriminatory treatment of households by race or ethnicity (e.g., Fair Housing Act, the Equal Credit Opportunity Act, and the Federal Housing Enterprises Financial Safety and Soundness Act). However, there is considerable interest in policies and programs that would have the indirect effect of reducing gaps in the homeownership rates of minorities by helping to overcome barriers to homeownership.

While Hispanics face many of the same barriers as blacks, including low income and wealth levels, including a lack of familiarity with the homebuying process and discriminatory treatment in housing and mortgage markets, the significant share of immigrants among Hispanics is an important difference from blacks. In addition to other barriers, recent immigrants to the U.S. will also face cultural and language barriers to homeownership. While federal programs may not have a specific Hispanic focus, there are many examples of efforts by advocacy groups, community development corporations, lenders, and other private and non-profit organizations that are aimed specifically at the barriers unique to Hispanic immigrants. Most of these efforts may be best characterized as marketing and outreach efforts that have the goal of ensuring that Hispanics benefit from the public and private resources that are available to promote homeownership. For example, a community-based organization serving a Hispanic neighborhood may develop a Spanish-language homeownership counseling program using HUD funding or obtain HOME funding to develop affordable homebuying options in the neighborhood. Lenders may design mortgage products that address the needs of low-income immigrants and develop marketing and outreach efforts to promote these products within the Hispanic community. In short, national efforts to promote homeownership for low-income and immigrant populations generally are given a Hispanic focus by the local organizations that deliver these services.

Our goals in this chapter are to describe the efforts that are designed to promote homeownership generally and to then provide examples of how public and private groups help to connect these efforts to the Hispanic community. There are two significant challenges in documenting current efforts to assist Hispanic homebuyers. First, because these efforts are largely undertaken by local organizations, there is no good overall source of information about these efforts. As a result, the information on Hispanic-specific efforts presented here are anecdotal examples of the type of efforts that exist but for which there is no information about the scale of such efforts nationally. Second, there are very few studies that evaluate the effectiveness of these strategies, and thus it is difficult to identify specific approaches – or combination of approaches – that will produce the largest positive affect on Hispanic homeownership rates.

This chapter provides an overview of the types of strategies designed to increase homeownership opportunities for Hispanics in each of the three categories of barriers discussed in Chapter 3. Exhibit 4-1 summarizes the relationship between the barriers, the strategies used to overcome the barriers, and the homebuying process.

Exhibit 4-1: Strategies for Overcoming Homeownership Barriers Among Hispanics



- **Strategies to Overcome the Lack of Information** include homebuyer education and counseling, financial literacy programs and outreach, and bi-lingual training programs. These initiatives are designed to help Hispanics learn about the homeownership process and understand that homeownership is an attainable opportunity.
- **Strategies to Overcome Real Estate and Housing Market Barriers** include development cost subsidy programs, regulatory relief in building codes and land use zoning, and enforcement of fair housing laws and use of audit testing to reduce discriminatory housing practices. These approaches focus on housing market supply constraints and increase the range of housing options for low-income and low-wealth households generally, including Hispanics.
- **Strategies to Overcome Financial and Mortgage Market Barriers** include down payment and closing cost assistance, income subsidies for mortgage payments, relaxed mortgage underwriting guidelines, reduction in mortgage interest rates, solutions to residency status issues, and enforcement of fair lending laws and use of audit testing to reduce discriminatory mortgage lending practices. While many of these strategies focus on credit issues and income and wealth constraints facing low-income households generally, they also include efforts targeted specifically at the challenges faced by immigrants.

The first three sections of this chapter discuss each of the three strategies in turn. The next section summarizes studies of the effect of these strategies on homeownership rates. There are few studies that evaluate the effectiveness of these strategies for low-income or minority households generally, let alone for Hispanics specifically. Nonetheless, the research provides some insights into the magnitude of potential increases in homeownership rates from different policy approaches. It also suggests which groups of renters are most likely to make the transition to homeownership as a result of these efforts. The chapter closes with a summary.

Strategies to Overcome the Lack of Information

Exhibit 4-2 presents the most common strategies for overcoming the lack of information among homebuyers, the type of borrower constraint addressed by each strategy, and examples of existing efforts. The strategies include informational homebuying programs, financial literacy programs and outreach, and bi-lingual information approaches. These strategies are being developed and implemented by federal, state, and local governmental agencies and also by private entities and local community groups. While most of these strategies apply to all potential homeowners who lack information about the homebuying and mortgage qualification process, these strategies are central to many of the efforts designed specifically to assist Hispanics. The importance of these strategies for supporting Hispanics reflects the fact that the informational barriers described in Chapter 3 are particularly important among immigrant households.

Exhibit 4-2

Strategies to Overcome the Lack of Information

		Existing Efforts	
Strategy	**Constraint Addressed**	**Description**	**Estimated Annual Number of Homebuyers Assisted**
Homeownership Education and Counseling	Homebuying process	HUD Funding	Up to 150,000
		State, local, private	Unknown
Financial Literacy Programs & Outreach	Financial literacy	HUD Funding	Up to 150,000
		U.S. Department of Treasury - ETA	98,000
		U.S. Department of Treasury – First Accounts	35,000
		State Electronic Benefits Transfer	Unknown
	Mortgage qualification process	Private sector	Unknown
		Credit Unions	Unknown
Bilingual Information	Homebuying process Financial literacy Mortgage qualification process	Federal, state and local governments	Unknown
		Private sector	Unknown

Source: Herbert et al., 2005.

Homeownership Education and Counseling

The purpose of homebuyer education and counseling programs is two-fold. First, these programs are designed to address the information gaps about the homebuying and mortgage approval process. Second, these programs prepare households for homeownership to reduce the risk of default by these (often risky) borrowers. Education and counseling programs may also provide financial literacy and management training, which is discussed further in the next section.

Formal homeowner counseling began with the Housing and Urban Development Act of 1968 and evolved considerably over the next three decades. As McCarthy and Quercia (2000) describe, throughout the 1970s homeownership counseling focused primarily on assisting financially troubled homeowners rather than on preparing households to become homeowners. During the late 1980s and 1990s, the programs shifted to emphasize pre-purchase counseling as a means of identifying and screening potential homebuyers in the low-income and minority populations, market sectors for which lenders had previously had little experience.

Today, the nature of services provided by homeownership education and counseling programs varies greatly. On the one hand, a potential borrower may meet individually with a counselor to review the household's specific circumstances and help guide the borrower toward homeownership. On the other hand, a homeownership education program may simply distribute informational pamphlets or workbooks that describe the homebuying process via the Internet. In between these extremes, there are hundreds of homebuying education and counseling programs that use several different service models and a wide variety of providers. Exhibit 4-3 briefly summarizes the nature of these programs, the service model, and the type of service provider.

While education and counseling are generally lumped together, there is an important distinction in the nature of services provided. As explained by McCarthy and Quercia (2000), education refers to the provision of information that is general in nature and is not specific to the counselee. Education generally is provided in group settings and covers the process of searching for a home, negotiating a home purchase, the financial and other obligations of homeownership, and determining eligibility for mortgage finance. Counseling, on the other hand, encompasses more intensive one-on-one meetings with clients to go over the specific needs and circumstances of the client to determine what steps are needed to prepare for homeownership. This distinction is reflected in Exhibit 4-3.

Exhibit 4-3

Characteristics of Homeownership Education and Counseling Programs

	Homeownership Education	**Homeownership Counseling**
Nature of Service	• Provide general information about the homebuying process, including finding and purchasing a home. • May act as a marketing and selection strategy for lenders who wish to attract creditworthy applicants. • Inform participants about financial assistance opportunities and flexible loan products.	• A counselor reviews household specific circumstances to resolve barriers to, and plan for, homeownership. • Helps sub-prime candidates repair problems with credit and work history to become eligible for prime loans. • Connects clients to financial assistance opportunities, for example favorable mortgage terms through affiliated lenders; may help negotiate with lender if client has difficulty with mortgage payment.
Service Model	• Classroom-based or distance learning (telephone and workbooks used) over a few weeks or months.	• Face-to-face in single session or multiple session over weeks or months
Service Provider	• May be provided by government agencies, non-profits, lenders, realtors, and mortgage insurance companies.	• Provided primarily by non-profits.

Given the unknown number of organizations involved in providing homebuyer education and counseling services, it is difficult to estimate how many households receive assistance each year. Collins (2002) estimates that between 120,000 and 150,000 households are served each year by a HUD-related homebuying education and counseling program. Each year HUD provides financial support for housing counseling agencies pursuant to Section 106(a)(2) of the Housing and Urban Development Act of 1968. In 2005 HUD provided $41 million in funding, which was distributed among several hundred HUD-approved counseling agencies as well as several dozen national intermediary organizations (such as NeighborWorks America, ACORN, National Foundation for Consumer Credit, and Catholic Charities USA) and state housing finance agencies who, in turn, pass funding on to their affiliates. Altogether, HUD's efforts supported more than 1,200 counseling agencies throughout the country.

However, as noted above, there are many other significant homebuyer education and counseling programs that are not HUD-related. For example at the national level, Habitat for Humanity International is committed to providing homeowner education to each of the 27,800 new households (20,800 of these will be minorities) that will buy a Habitat home in the U.S. by 2005. In addition, education and counseling curriculums have been developed by the Mortgage Bankers Association of America, National Association of Home Builders, National Association of Hispanic Real Estate Professionals, National Association of Real Estate Brokers, and many other national groups. There are also a wide variety of local efforts that can be fairly substantial. As an example, the Enterprise Foundation and its partners in the Housing Development Project in Denver have provided homeownership counseling to 1,000 low- and moderate-income households. Thus the actual number of households receiving some form of counseling may be several times the number funded by HUD.

National Council of La Raza (NCLR): Home to Own Program

NCLR, Fannie Mae, First Interstate Bank and a coalition of Latino community-based organizations in Arizona embarked upon a pilot HEC program between 1993 and 1995. The program included down-payment assistance, flexible underwriting criteria, and the availability of mortgage financing. Pre-purchase housing counseling was mandatory and the program targeted the area's very low-income population. Nearly half of the participants had incomes below 50 percent of the Area Median Income (AMI).

Ninety percent of participants in the pilot program felt the counseling was "very worthwhile" and many participants "found the counseling to be much more important than down-payment assistance." Home to Own participants from the pilot have been thriving homeowners with a very low delinquency and foreclosure rate of 1 percent, compared to the industry average of 4 percent and the national average for FHA mortgages of 12 percent.

Subsequent to the Arizona pilot program, NCLR launched the NCLR Homeownership Network (NHN) to work with other partners across Southwestern states. The NHN has assisted more than 5,000 low-income Hispanic households become homeowners and maintain low delinquency rates. NHN provides classes and counseling in Spanish and assists CBOs to create and sustain housing counseling services.

Education and counseling efforts that are Hispanic-focused share many of the same objectives as HEC programs for all household types: determining a household's readiness for homeownership; accumulating wealth through budgeting and saving; understanding credit issues; searching for a home and the role of the real estate agent; understanding the mortgage process and the different types of financing options; knowing how to close on a home; and understanding the responsibilities of homeownership (Schoenholtz and Stanton, 2001, p. 37). These objectives are common to established curriculums that have been implemented nationally for many years and created by key organizations—e.g., Neighborhood Reinvestment Corporation, the American Homeowner Education and Counseling Institute, and HUD. However, Hispanic-focused education and counseling programs differ from standard approaches in a few important ways. First, these approaches must be translated—linguistically and culturally. Because Hispanics in the U.S. are diverse and come from many different countries (see Chapter 1), local education and counseling programs reflect this diversity by tailoring established curriculums to meet the needs of a locality's particular Hispanic community. Second, as Chapter 3 suggests, immigrant populations have unique barriers to homeownership that must be addressed within HEC curriculums. In particular, developing trust in the U.S. banking system is often a focus of HEC curriculums that target immigrants.

Financial Literacy Programs & Outreach

For some low-income households, and particularly immigrants, a precursor to being ready to buy a home is to develop greater financial literacy and to become more integrated into mainstream financial markets. Financial literacy is needed to manage household finances, which helps the household meet the criteria used by mortgage lenders to evaluate credit risk, including the amounts of outstanding debt, patterns of paying bills on times, and levels of savings. Establishing accounts with banks and creditors are important parts of this process because these activities help to document savings and demonstrate a household's ability to manage credit.

As suggested above, HUD funding under Section 106 is used by counseling agencies, national intermediary organizations and their local affiliates, and state housing finance agencies to develop financial literacy curriculums into their broader education and counseling programs. As Schoenholtz and Stanton (2001) describe, the overall goals of financial literacy programs are to develop informed consumers, facilitate their ability to achieve their financial goals, and help them become long-term homeowners. To achieve these goals, financial literacy programs:

- Help families to become more familiar with the institutional barriers and potential pitfalls in the American financial system;
- Teach financial management and planning skills to make the most of a household's income, savings, and assets; and
- Explain the mechanisms of the U.S. credit system, specifically the reasons why households should use banks, take out home mortgages, and invest savings

Many financial literacy programs focus on basic skills, such as planning, budgeting, spending, and saving. These programs are often targeted to unbanked populations, especially Hispanic immigrants, and try to build participates' level of trust and comfort in the banking system. These efforts emphasize the advantages of using a bank (e.g., the safety of using a bank compared to having one's savings at home or carrying it on one's person and the ability to earn interest on savings) and teach participants how to use an automated teller machine (ATM), write a check, make deposits into checking and savings accounts, establish a credit history, and save for retirement. As stated above, Collins (2002) estimates that between 120,000 and 150,000 households are served each year by a HUD-related homebuying education and counseling program, many of which have a financial literacy component.

First National Bank and Trust Company: Banking and Immigrant Education in the Workplace

The small town of Rogers, Arkansas experienced a sharp rise in its Hispanic population in the 1990s. The increase was largely due to young, male Mexican immigrants employed in the local poultry factories and residing in Rodgers temporarily before moving onto other jobs. First National, the largest and oldest bank in Rogers was already offering mortgage products that served the community's moderate-income population and decided to reach out to the working-class Mexican population. To target this clientele the bank established a partnership with the poultry employers, developed a financial seminar series in Spanish in 1994, and began offering seminars on-site at the factories. The partnership fulfilled the needs of each group of stakeholders: the bank wanted to be the first to connect to the growing Hispanic population and simultaneously meet their CRA requirements; the poultry industry sought to stabilize its workforce; and the immigrant community wanted steady employment and quality, affordable housing.

The program took significant effort for the First National to execute. First National hired experts on Mexican culture to supplement the bank's existing customer training. In addition, bilingual bank staff and seminar instructors who spoke Spanish and understood the employees' cultural and educational backgrounds were hired. First National also adjusted its mortgage loan processing approach and provided 90 percent of the new customers with FHA or similar loans.

During the first five years of the program, over 500 immigrant families purchased homes through First National. Prior to the first seminar, only 8 percent of the poultry processor's employees were First National customers; two years later 60 percent were customers. The programs also stabilized the workforce – the turnover rate at one of the largest companies dropped from 200 percent annually in 1992 to 15 to 20 percent in 1999. Company management credits the stabilization to the bank and the homeownership program.

Source: Schoenholtz and Stanton (2003).

In addition to these efforts to provide financial literacy training, there are also a variety of efforts to bring previously unbanked households into the financial mainstream. The prospects for increasing access to financial institutions and services among low-income and minority households grew rapidly during the 1990s due to increased attention to this issue as well as both an expanding national economy and several technological innovations. Government policy focused on expanding access to financial services initially among recipients of federal benefits and later on to low-income households more generally (Barr, 2004). Financial institutions and community development financial groups similarly developed approaches and new products during the 1990s that were designed to reach the unbanked, generally, and Hispanics immigrant households more specifically.

In addition to HUD's efforts, two initiatives by the U.S. Department of Treasury emerged during the 1990s and are designed to link unbanked households with the U.S. financial system. The Debt Collection Improvement Act of 1996 authorized the U.S. Treasury to initiate the Electronic Funds Transfer (EFT) program in 1999. The EFT program has two primary goals. First, the program is designed to increase direct deposits of federal benefits and wages into bank accounts. Second, for unbanked recipients of federal benefits, the program creates a low-cost, electronically-based bank account or Electronic Transfer Account (ETA) to help bring them into the banking system.[45]

The Treasury also started a small pilot initiative, called First Accounts, designed to improve access among low-income households to financial services. In 2001, the federal government awarded about $8 million to fifteen projects nationally to bank 35,000 households. The program improves access to financial institutions by offsetting the costs incurred by these institutions in establishing low-cost, electronic bank accounts for low-income households and in expanded access to ATMs, the Internet, and other points of access within low-income neighborhoods. The grants also support financial education of low-income households and support research on the financial needs of low-income households and the development of financial products designed to address these needs (Barr, 2004).

At the state level, the 1996 Welfare Reform law required states to shift from paying welfare benefits under the Temporary Assistance for Needy Families (TANF) program by check to making these payments electronically. Leyser (2001) reports that state electronic benefit transfer programs have expanded to cover welfare benefits, food stamps, state cash benefits, and a host of other state programs. However, Barr (2004) notes that many states have implemented their EBT programs in ways that minimizes broad access. Most states do not create bank accounts for each individual but rather create pooled accounts that are accessed with a recipient's debit card.

There are also numerous private sector initiatives occurring throughout the country that target low-income households, particularly Hispanics. A recent report by the National Council of La Raza provides an overview of the importance of financial education in Hispanic communities and provides a number of examples of these efforts (NCLR, 2004). ShoreBank is working with local groups to offer free tax preparation services for low-income filers in their branch offices, and offer filers an

45 These accounts carry a maximum fee of $3 per month, do not have minimum balances, and can be used to deposit income from Social Security and other types of benefits. The Treasury provides banks and other institutions participating in the program with a one-time payment of $12.60 per account to cover the fees associated with opening a new account. Thus, the program "banks" households that were previously detached from the U.S. financial system and promotes regular interactions with the system. As of May 2004, almost 500 banks, thrifts, and credit unions are offering ETAs in over 18,000 locations nationwide. An estimated 98,000 accounts have been opened. However, Barr (2004) questions the long-term viability of these accounts due to the research and product development costs associated with a financial institutions' participation in the program.

opportunity to open a bank account to save their refund. Citibank, Wells Fargo, Bank of America and other financial institutions are focusing on the billions of dollars in remittance payments sent from the U.S. to Latin America or the Caribbean annually. These institutions are developing ATM-based remittance products that significantly reduce the cost of sending remittances abroad and have the potential to attract immigrants to the American banking system. Lastly, credit unions are also increasingly active in improving access among Hispanics to financial services. In Washington DC, the District Government Employees Federal Credit Union, the Organization of American States Staff Federal Credit Union and IDB-IIC Federal Credit Union (a credit union affiliated with the Inter-American Development Bank) are planning to open a credit union that would meet the needs of Hispanics. The joint venture would promote financial integration among Hispanics in multiple ways: set fees and policies reasonable to low-income households; accept foreign identification cards (e.g., Mexico's Matricula Consular program) to allow illegal immigrants an opportunity to open a savings account; and look to regular rent or remittance payments as proof of creditworthiness.

These initiatives are often promoted through outreach campaigns to inform Hispanics about these new opportunities and encourage them to participate. For example, federal agencies use mass media outlets, including television, radio, and print advertisements in English and Spanish (as well as other languages) to inform people of these opportunities. National campaigns to promote awareness are supported by the efforts of local ethnic- or community-based organizations to educate their audience about the homebuying process. Many community-based outreach efforts emphasize face-to-face interactions between program staff and potential homebuyers, and some programs send staff to local churches or places of work to offer their services and distribute basic information. Other programs organize homeownership fairs, print newsletters, or develop partnerships with local unions or educational institutions.

Bilingual Training and Information

Both education and counseling programs and financial literacy programs introduce households to complex financial concepts and practices that often require instructors to be bilingual and familiar with a participant's educational and cultural background. As Schoenholtz and Stanton (2001) suggest, bilingual instruction that is culturally sensitive is important because it allows instructors to talk about these new concepts in ways that participants can understand and within a context with which participants can identify. The assumption is that bilingual and bicultural programs are more likely to have a lasting impact on participants and engender trust in mainstream financial institutions, when compared to English-only programs.

Today, bilingual training and outreach is commonplace. HUD's website is available in Spanish and industry professionals are trained and equipped to assist Hispanic homebuyers. For example, Freddie Mac, Fannie Mae, and the Federal Reserve provide step-by-step credit and home purchase information on-line in Spanish. The National Association of Hispanic Real Estate Professionals (NAHREP) has developed a professional certification curriculum to help real estate professionals serve Hispanic consumers effectively. NAHREP also hosts special local and national events, such as the annual Hispanic Marketing Conference to educate industry professionals about the strategies and tools needed to attract and serve Hispanic customers. Banks, realtors and other private companies reach out to the Hispanic community through Spanish language advertisements and websites that contain financing and housing market information. Several non-profits use television and radio to inform Hispanics about the process of homebuying and local opportunities. Television programs like *Estrenando Casa* in Houston are increasingly popular. The 30-minute shows address homebuying topics with local experts and follow a family as they buy their first home.

Indeed, the ability to reach Hispanics and provide general information on homeownership opportunities has increased considerably as the number of Spanish-language media outlets has expanded nationally. Since 1990, circulation of Spanish-language dailies has tripled, newspaper advertising revenues have grown more than sevenfold and the number of Spanish language websites has increased exponentially (Downey, 2003).

Strategies to Overcome Real Estate and Housing Market Barriers

Exhibit 4-4 categorizes the most common strategies to overcoming real estate and housing market barriers, and also presents the type of borrower constraint addressed and examples of existing efforts. The three general strategies include development cost subsidies, providing regulatory relief, and reducing discriminatory practices. Development cost subsidies and regulatory relief attempt to make homeownership a more affordable option, while reduction in discriminatory practices will increase homeownership opportunities. These strategies tend to be highly decentralized, involving a wide range of organizations. Their impact on increasing homeownership among low-income households (including Hispanics) is typically unknown. Throughout this section we provide examples of efforts by local organizations to use these strategies to assist Hispanics.

Exhibit 4-4

Strategies to Overcome Real Estate and Housing Market Barriers

Strategy	Constraint Addressed	Existing Efforts: Description	Existing Efforts: Estimated Annual Number of Homebuyers Assisted
Development Cost Subsidies	Affordability of housing	HOME	7,000
		CDBG	Unknown
		Habitat for Humanity	5,400
		State and local efforts	Unknown
Regulatory Relief	Affordability of housing	HUD's regulatory barriers clearinghouse	Unknown
		Trade association efforts	Unknown
		National Home Construction and Safety Standards	300,000
Reduction in Discriminatory Practices	Discrimination in Housing	Enforcement of Fair Housing laws	Unknown
		Paired Testing	Unknown

Source: Herbert et al., 2005.

Development Cost Subsidies

The goals of development cost subsidies are two-fold. First, the primary goal is to increase the supply of owner-occupied units at prices affordable to low-income households. The development cost subsidy is applied either to lower the purchase price below the unit's market value or to close the gap between the cost of developing an affordable unit and the market value. How the subsidy is used depends on the housing market. The subsidy is used to lower the purchase price in high cost housing markets and used to close the gap between market value and development costs in depressed housing markets. Second, development cost subsidies often have important community revitalization goals as well.

As summarized by Herbert *et al*. (2005), there are few sources of federal funding to subsidize the development of housing for homeownership. The HOME program is the primary source of funding for this purpose. Authorized under Title II of the Cranston-Gonzalez National Affordable Housing Act, the HOME program provides formula grants to States and localities to meet the needs in their areas for affordable housing, including efforts to build or rehabilitate affordable housing for homeownership.[46] A total of 62,364 new construction units (or approximately 5,000 units annually) and 30,811 rehabilitation units (or about 2,000 units) have been developed using HOME funds between the inception of the HOME program in 1992 and October 2004. In addition, Community Development Block Grant (CDBG) funds are also used to subsidize the development of housing for homeownership. The effect of CDBG spending on developing homeownership opportunities is difficult to estimate because HUD reports on the use of CDBG funding do not separately identify funds spent for constructing or rehabilitating housing for homebuyers.

In addition, there are numerous efforts by state and local governments to subsidize the development of housing units for homeownership. Many of these efforts are part of broader, inner-city redevelopment plans and some use unrestricted income from state housing finance agencies and the sale of tax foreclosed land and structures to help support these efforts.

Federal, state, and local efforts are buttressed by private efforts to support the development of new housing units for homeownership. For example, Habitat for Humanity is one of the largest and most prominent developers of affordable housing globally. Habitat for Humanity is a nonprofit, ecumenical Christian housing ministry that relies on volunteered labor and charitable contributions to build or rehabilitate homes for low-income owners. Homebuyers invest considerable time to help build their homes and contribute a modest down payment in exchange for a home that is priced well below its market value using a no-interest rate mortgage. The organization operates in all fifty states and produced about 5,400 units in the U.S. in 2002.

Habitat for Humanity is one of many sweat equity programs or mutual self-help programs that focus on the production of affordable housing. These programs require eligible households to build houses for each family in the program, and most programs include formal homeownership education before or during the construction process. Participating families are typically required to build most of the house themselves and the balance is completed by professional contractors, although a few programs require participants to build the entire house. Professional instruction is provided throughout the

[46] The HOME program also allows communities to use funds to develop affordable rental housing or provide direct rental assistance to low-income people.

program to ensure housing quality. Mutual self-help programs have been particularly successful in colonia communities, defined as the area within 150 miles of the U.S.-Mexico border excluding Metropolitan Statistical Areas with populations exceeding one million. For example, Proyecto Azteca in San Juan, Texas has helped 80 colonias families build their own homes since 1991. The houses are financed with federal HOME Investment Partnerships funds. The program uses the funds to offer no-interest mortgages for qualifying colonia residents with incomes as low as $4,500 and up to $13,500. Similarly, the Lower Valley Housing Corporation, a nonprofit corporation in El Paso County, Texas has helped low-income colonia families build over 360 new homes since 1990 through a mutual self-help program. These efforts have received considerable federal support from HUD (e.g., Colonias Gateway Initiative), the U.S. Department of Agriculture (Rural Housing Service), and the Environmental Protection Agency (Border 2012 program), which provide funding for housing development for low-income colonia families as well as for infrastructure improvements.

Self-Help Enterprises (SHE)

Formed in 1965, Self-Help Enterprises (SHE) has over 35 years of experience promoting homeownership among the 320,000 seasonal and migrant farm workers that live its multi-county rural service area in the San Joaquin Valley. SHE participants are below 80% AMI and must attend four training sessions, elect project leadership, and hold group meetings throughout the home construction process.

A 1998 study showed that SHE's work had significantly contributed to the development of reliable homeowners and strong communities. Eighty-five percent of participants have lived in their homes 7 or more years, 79 percent for 10 or more years, and 68 percent for 20 or more years. Since 1976 only 3 percent have defaulted on their mortgage loans. As an integral part of the construction team, the homeowners learn more about the workings and maintenance of a home than most new homeowners.

SHE staff speak Spanish and work closely with the households during all stages of the homebuilding and purchasing process. Typically, mortgage loans are secured from the USDA's Rural Economic and Community Development Services (RECDS) and the USDA also fund some of SHE's technical assistance services. Since 1965, SHE has helped over 5,000 households build homes in over 70 subdivisions. They currently aid an average of 150 households per year.

Reduction of Regulatory Barriers

Excessive building codes and land use zoning ordinances can contribute to higher home prices since these regulations raise the cost of housing development (Glaeser, Schuetz, and Ward, 2006). These regulations are controlled mostly by local governments, and to a lesser extent state governments, and thus the federal role in reducing these barriers is limited. However, HUD has played an important role in informing communities of these regulatory barriers and how to address them. HUD's Regulatory Barriers Clearinghouse has gathered and disseminated information on regulatory barriers to affordable housing development since the early 1990s. HUD's efforts have been supplemented by trade associations, particularly the National Association of Homebuilders (NAHB), that have also worked to identify regulatory barriers and ways to reduce them.

One approach to reducing regulatory barriers is provided by the growing number of manufactured homes (formerly referred to as mobile homes) built under the HUD's Federal Manufactured Home Construction and Safety Standards. HUD's standards are less onerous than local building codes[47] and are associated with lower development costs, compared to site-built homes (NAHB Research Center, 1998). Overtime, these standards have helped to improve the size and quality of these units and, as a result, manufactured homes have increasingly become an option for many homebuyers. Collins (2002) finds that manufactured homes were purchased by 14 percent of all first-time homebuyers between 1997 and 1999. Also, 21 percent of homebuyers with incomes below 80 percent of area median income bought manufactured units. During the 1990s, the annual number of manufactured home placements was roughly 300,000, but declined to approximately 200,000 in 2001 and then to 125,000 in 2004.

Reduction of Discriminatory Treatment

Government and community advocacy groups have typically pursued two approaches to reducing discrimination in the housing market. First, by enforcing extant laws and regulations prohibiting discriminatory treatment – particularly the Fair Housing Act – government agencies are stopping instances of discrimination and, in turn, discouraging future discriminatory treatment by demonstrating that violators will be identified and punished. Although Schill and Friedman (1999) note that a small number of cases have reached a settlement or judgment for the plaintiff, these efforts have the potential for broad impact by sending a clear message to others in the housing market. Also, as both Schill and Friedman (1999) and Yinger (1999) have noted, most government enforcement efforts have focused on discrimination in rental markets rather than the housing sales market.

Second, as discussed in Chapter 3, the use of paired-testing to identify cases of discriminatory treatment appears to be increasing. Paired testing is used to examine both the specific practices of an institution and the prevalence of discriminatory treatment generally in a market area. HUD has undertaken three paired-testing examinations of racial discrimination nationwide in the sales and rental markets (see Chapter 3 and Turner *et al*., 2002b for a description of these efforts).

Strategies to Overcome Financial and Mortgage Market Barriers

Exhibit 4-5 groups the most common strategies to overcoming financial and mortgage market barriers, lists the types of borrower constraints addressed, and provides examples of existing efforts. As presented by Herbert *et al*. (2005), the six general strategies include down payment and closing cost assistance, income subsidies for mortgage payment, relaxed mortgage underwriting guidelines, reduction in discriminatory practices, reducing mortgage interest rates, and resolving residency status. Most of these strategies are designed to address low wealth and income constraints and many are government-based. Strategies for resolving residency status attempt to address the documentation issues discussed in Chapter 3 that are particular to immigrants. Along with efforts to overcome

[47] Manufactured homes must have a permanent chassis in order to qualify for regulation by HUD's standards.

information barriers, efforts to develop mortgage products and outreach efforts to meet the unique needs of Hispanics are among the most common approaches for supporting Hispanic homeownership.

Exhibit 4-5

Strategies to Overcome Financial and Mortgage Market Barriers

Strategy	Constraint Addressed	Existing Efforts: Description	Existing Efforts: Estimated Annual Number of Homebuyers Assisted
Down payment & closing cost assistance	Low wealth and income	HOME	16,000
		CGBG	6,000
		NeighborWorks America	7,000
		FHLB's AHP	17,000
		IDAs	840
		State and local efforts	Unknown
		Private efforts	Up to 200,000
Income subsidy for mortgage payment	Low wealth and income	RHS section 502	15,000
		Housing Choice Vouchers	750
		Mortgage credit certificates	5,000
Relaxed mortgage underwriting	Poor credit	FHA, VA, and RHS mortgage insurance	1,100,000
		GSE housing goals	Unknown
	Low wealth and income	Community Reinvestment Act	Unknown
		Subprime lending	300,000
Reduction in discriminatory practices	Discrimination in Mortgage Markets	Enforcement of Fair Lending Laws	Unknown
		Public reporting requirements	Unknown
		Paired testing	Unknown
Reduce mortgage interest rates	Low wealth and income	Mortgage Revenue Bonds	125,000
		GSEs favored status	579,000 first-time buyers
Resolving immigration issues	Lack of proper documentation	Flexible underwriting guidelines	Unknown
		Local efforts	Unknown

Source: Herbert et al., 2005.

Down Payment and Closing Cost Assistance

Down payment or closing assistance grants or low-cost loans are among the most common approaches to promoting homeownership. These grants or loans help to overcome a borrower's lack of wealth, and may also address a borrower's income constraints by lowering the size of the mortgage needed to finance the purchase. The HOME and CDBG programs are two, large block-grant programs funded by HUD that provide funds to state and local governments who allocate this money to meet their housing and community development needs. Homeowners aided through the HOME program must have incomes below the area median income. A total of 211,491 homeowners (an average of about 16,000 households annually) were assisted in acquiring a home from 1992 to 2004. Herbert *et al*. (2005) estimate that approximately 6,000 households annually were assisted by the CDBG program. Other newer initiatives include the American Dream Down Payment Initiative (see Exhibit 4-6). In its first three years (2003-2005), total funding for this program was $211 million. As of December 2005, half of these funds had been expended in assisting 13,850 new first-time homebuyers with an average subsidy of $7,400.

In addition to the HOME and CDBG programs, the federal government supports the efforts of the NeighborWorks America (formerly the Neighborhood Reinvestment Corporation) and the Federal Home Loan Banks (FHLB) to provide grants or loans to promote homeownership. NeighborWorks America receives funding from the federal government to support the activities of its local affiliates who, in turn, partner with local lenders, realtors, foundations and others to increase homeownership opportunities among low-income households. Grants or second mortgages with below market interest rates are used to close the gap between the cost of available housing and the amount affordable to the household. NeighborWorks America also uses loans to attract additional funding from banks who earn credit toward low- and moderate-income lending goals under the Community Revitalization Act. Approximately 10,000 homebuyers were assisted by NeighborWorks America in 2000.

The Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP) is another important effort to address the wealth constraints of low-income borrowers. Funds from the AHP are used to provide both low-cost loans and grants to assist homebuyers with income below 80 percent of area median income. Herbert *et al*. (2005) note that in 2001 the AHP provided an average subsidy of about $5,000 to nearly 17,000 homeowners.

Individual Development Accounts (IDAs) are another innovative approach to promoting homeownership among low-income households and may be particularly useful to helping Hispanic immigrants. These efforts provide financial management training to develop better savings habits among low-income households and encourage savings by matching participant savings with public or private funds. Withdrawals from IDAs are often restricted to investments that will have a longer-term payoff (e.g. buying a home, pursuing post-secondary education and training, and starting a small business), but may address short-term needs, (e.g., purchasing of a car or computer for work-related purposes) (Boshara, 2005). IDAs were initially developed by foundation-funded, community-based organizations, and later promoted by the federal government as part of welfare reform efforts. In 1998, federal support was expanded with the establishment of the American Dream demonstration program in 13 sites to investigate the effectiveness and feasibility of IDAs.

Today, there are at least 300 IDA programs in nearly every state, supporting about 15,000 active accountholders (CFED, 2003). While homeownership is a common use of these funds, it is not the only use. Based on research by Sherraden (2002) and (Schreiner and Sherraden, 2002), we can assume that approximately 28 percent of the 15,000 active participants used IDA funds for home purchase, and an estimated 20 percent of these participants eventually drop out of the program. As a result, we estimate that there may be 840 home purchasers using IDAs each year.

In addition to these efforts, there are some other down payment assistance programs funded by state and local governments, non-profits and private sector firms that are independent of federal assistance. For example, state housing finance agencies use funds from the issuance of bonds with a slightly above market interest rates to provide down payment assistance. There has also been growing use of privately funded down payment assistance efforts, such as the Nehemiah Foundation in Sacramento. Under the Nehemiah model, the home seller provides a cash contribution to a non-profit organization, which in turn provides a grant in this amount to the homebuyer as down payment assistance. Other organizations have copied this approach and a national organization representing these groups estimates that there may be as many as 200,000 homebuyers assisted per year (Barta and Kim, 2002).

Income Subsidies

The Section 502 Direct Loan Program of the Department of Agriculture's Rural Housing Service is the largest income subsidy program. Eligible households must have income that is below 80 percent of the area median; households must be without adequate housing, but be able to afford the mortgage payments; and households must be unable to obtain credit elsewhere despite having reasonable credit histories. The program uses loan limits from FHA's Section 203(b) program. As of December 2004 the interest rate on these loans was 5.875 percent,[48] but the effective interest rate is brought down by the Section 502 payment assistance that is tied to the household's income level. Herbert *et al*. (2005) note that with the payment subsidy, the effective interest rates may be as low as 1 percent. In recent years the program has averaged about 14,000 loans a year.

The expansion of the Housing Choice Voucher program (formerly known as the Section 8 program) is another example of a federally sponsored income subsidy for homeownership. The Housing Choice Voucher homeownership program allows households with housing vouchers to apply the subsidy payment toward a mortgage. Several different financing approaches have been developed, but in most cases the income subsidy is insufficient to make homeownership feasible financially and thus other grants or loans are usually required (Turnham *et al*., 2002). Since the use of vouchers to support homeownership was first introduced in pilot form in 1999 there have been a total of 4,549 homebuyers assisted through this effort.

At the state level, the Mortgage Credit Certificate (MCC) program grants state housing agencies the option of converting their authority to issue mortgage revenue bonds into mortgage credit certificates. Under this program a first-time homebuyer acquires a conventional mortgage from a lender and then obtains a mortgage credit certificate from the state housing agency. The certificate provides the buyer with a nonrefundable income tax credit worth between 10 and 50 percent of the borrower's annual mortgage interest payment (up to $2,000 annually). The tax credit lowers the buyer's federal income tax withholding and thus acts as an income supplement. While innovative, the MCC program has not been heavily used. Collins (2002) reports that only 12 states participated in the program in 1999, issuing a total of 5,200 MCCs.

Relaxed Mortgage Underwriting

Conventional mortgages have income, wealth, and credit underwriting requirements to qualify for a mortgage, which frequently frustrate low-income households (including Hispanics) seeking homeownership opportunities. Relaxation of mortgage underwriting guidelines is an increasingly common approach by mortgage lenders to reduce these constraints, and can be coupled with down

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[48] Applies to a 30-year fixed loan, 6.241 APR, 0 Discount Points, and 3 percent down payment.

payment assistance and other financial supports to promote homeownership among Hispanics (see Exhibit 4-5). Part of the motivation for the relaxation in mortgage underwriting has been HUD's regulatory oversight of the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac. HUD establishes housing goals for GSEs to expand the provision of mortgage credit to low-income and minority borrowers and communities. Burnett *et al*. (2006) provide a review of mortgage underwriting guidelines used by the GSEs (as well as FHA and a major subprime lender) to examine the extent to which these guidelines facilitate or impede the ability of Hispanics to qualify for a mortgage. The report finds that the GSEs have developed several products that are more flexible than conventional mortgage products. For example, Hispanic households are expected to benefit from the following flexibilities:

- Do not require two years of employment history for mortgage approval;
- Ignore frequent job changes as long as the borrower can document that his or her income is stable (for example, with paystubs, an employer-completed form, or W-2 forms);
- Allow rent paid by family members to be included in the borrower's income;
- Allow a borrower to be approved for a mortgage without a formal credit history with credit reporting agencies;
- Allow the use of non-traditional credit reports or a credit history compiled by the lender, as long as it includes a minimum number of credit references;
- Provide some flexibility to borrowers with low credit scores; and
- Do not require U.S. citizenship for mortgage approval.

But while lending by the GSEs to low-income households has increased over the last decade in response to HUD's housing goals, federal loan guarantee programs offered by the Federal Housing Administration (FHA), the Veterans Administration (VA), and the Rural Housing Service (RHS) have long been an important source of flexible mortgage products for low-income households.[49] According to Herbert *et al*. (2005), on average, FHA insured 792,000 mortgages a year between 2000 and 2003, including 633,000 mortgages on average for first-time homebuyers. However, FHA's market share has gone down since then. Over the 2002-2003 period, the VA guaranteed an average of 328,000 mortgages, while the RHS guaranteed 29,000.

Portfolio lending by depository institutions is another source of flexible mortgage products for low-income households. In order to meet regulatory requirements of the Community Revitalization Act (CRA), depository institutions have a strong incentive to develop mortgage products that meet the needs of low-income households in their service areas. There have been several studies examining the impact of CRA regulations on lending to low- and moderate-income borrowers, but most of these studies have focused on the share of lending to these groups rather than on overall volumes of lending (see, for example, Belsky *et al*, 2001, and Apgar *et al*, 2002).

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[49] While private mortgage insurers have traditionally served lower risk households, during the 1990s these firms began to offer more aggressive products that would serve lower income and higher risk borrowers. However, because these mortgages are eligible to be purchased by the GSEs, these loans will fall within estimates of the GSE loan volumes.

The De Oro Group, U.S. Bank Home Mortgage, and Freddie Mac: Generating $1 Billion in New Mortgages to Boost Hispanic Homeownership Opportunities

In July 2003, the De Oro Group—one of the largest Hispanic-owned mortgage companies in Southern California—U.S. Bank Home Mortgage, and Freddie Mac announced a new partnership that leverages the key strengths of each partner to promote homeownership opportunities among minorities. The partnership builds on De Oro's understanding of the Hispanic community, the support of numerous members of the National Association of Hispanic Real Estate Professionals (NAHREP), the financial and organizational capacity of U.S. Bank Home Mortgage, and Freddie Mac's affordable lending products and secondary market expertise to generate over $1 billion in mortgages to Hispanic families in two years.

De Oro's group of Spanish speaking mortgage professionals are working with NAHREP members to expand the availablility of affordable mortgage products in Hispanic communities. U.S. Bank Home Mortgage serve as the aggregator for De Oro's standard mortgages and sell all De Oro-originated first lien conforming mortgages to Freddie Mac. Freddie Mac purchases the mortgages, which provides a steady supply of mortgage funds for additional homebuyers. Freddie Mac is also developing a flexible mortgage product that offers special down payment and closing costs options.

Source: Freddie Mac Press Release, July 2003.

The growth in subprime mortgage lending is another approach to addressing the constraints imposed by conventional underwriting. Subprime loans provide borrowers with mortgage funding even if the borrower has impaired credit, income levels that are low compared to their housing costs or total debt levels, or seek loan amounts that exceed the value of their home. However, borrowers face higher interest rates and fees to compensate lenders for the higher risks of these loans. Although most subprime loans are used to refinance existing mortgages, the use of subprime loans for home purchase has increased considerably, particularly among minority homebuyers. HUD tabulations of HMDA data for 2004 indicate that nearly 900,000 loans were made for home purchase by subprime lenders. The share of subprime loans among Hispanic homebuyers is particularly high and has been increasing. Data provided by HUD that considers conventional loans less than the GSE conforming loan limit indicate that HUD-identified subprime lenders accounted for 18 percent of Hispanic home purchase loans in 2002, 25 percent in 2003, and 33 percent in 2004.

While the advent of subprime lending has expanded borrowing opportunities for those who would have difficulty meeting conventional underwriting standards, there have also been concerns that some share of subprime borrowers could have qualified for a prime mortgage at a lower cost. In particular, the heavy concentration of subprime lending in minority neighborhoods has raised concerns that minorities, in particular, are falling prey to aggressive marketing of some subprime lenders (Scheessele, 2002; ACORN, 2002; and Bradford, 2004). Recent studies that have examined subprime lending shares at the neighborhood level have generally concluded that these are higher in black and Hispanic neighborhoods even after controlling for neighborhood credit scores as well as income and other pertinent characteristics (Calem, Gillen and Wachter, 2004; and NCRC, 2003). However, the findings regarding the share Hispanics in the neighborhood are less consistent than they are for blacks. For example, in NCRC's study of 10 market areas the neighborhood share black is statistically significant in 6 of 10 purchase loan models and 9 of 10 refinance loan models, while the Hispanic share is only significant in 1 purchase model and 5 refinance models. Thus, there is not as much evidence that subprime lenders are over represented in Hispanic neighborhoods as there is that they are overrepresented in black neighborhoods.

Reduction of Discriminatory Treatment

Like the approaches to reducing discrimination in the housing market, government and community advocacy groups have pursued three approaches to reducing discrimination in the mortgage market. First, government agencies are enforcing laws and regulations – especially the Equal Credit Opportunity Act and the Federal Housing Enterprises Financial Safety and Soundness Act – prohibiting discriminatory treatment in the mortgage market. Enforcement of these existing laws stop specific instances of discrimination and can inhibit future instances of discriminatory treatment.

A second approach to combat discriminatory treatment in housing finance is the federal requirement that lenders report information on their lending activity (LaCour-Little, 1999) pursuant to both the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA). Public reporting permits regulators and the general public to scrutinize lenders actions and disclose important information about their lending practices. The CRA allows regulators to deny mergers on the basis of poor performance on CRA-defined measures, which gives community groups a powerful tool to encourage banks to lend to low-income and minority borrowers.

Lastly, paired-testing has also been used to identify cases of discriminatory treatment in mortgage markets. See Chapter 3 and Turner *et al*. (2002a) for a description of these efforts.

Reduced Mortgage Interest Rates

Lowering borrowing costs by reducing mortgage interest rates is another approach to addressing limits on homeownership imposed by a lack of income and wealth. The most common source of below-market interest rate mortgages are provided by state housing agencies with funding provided by mortgage revenue bonds (MRB). States can issue MRBs with interest payments that are exempt from federal taxation to support private activities, such as home purchases. These bonds allow for lower interest rates when compared to other investments because investors do not pay federal tax on the income from these bonds. According to Collins (2002), MRB financing can reduce mortgage rates by as much as 2 percentage points, and the National Council of State Housing Agencies (NCSHA) estimates that the typical homebuyer saves $100 a month from these lower interest rates.[50] Herbert *et al*. (2005) reports that 125,000 homebuyers are assisted through this program annually.

Resolving Immigration Issues

Helping immigrants on a temporary U.S. Visa or undocumented immigrants resolve their immigration status is challenging for several reasons. First, these issues generate considerable confusion and fear

[50] See "Housing Bonds Program Fact Sheet" at http://www.ncsha.org/section.cfm/3/34/36.

among immigrants, which leads many immigrants to remain wary about seeking help with their immigration status. Fear of deception, imprisonment, or deportation are exacerbated by stories circulated among immigrant communities about a neighbor or relative who was a victim of predatory lending practices or was deported because of a minor criminal offense committed many years ago. Second, outreach efforts to immigrant Hispanics can be hampered by employment seasonality and the resulting residential instability. Migrant workers move regularly, which limits the ability of organizations to both identify the immigrant community and work with them for as long as it takes to resolve their issues. Lastly, lending institutions are hesitant to develop flexible mortgage products that do not require a social security number (SSN) because of the potential high risk for the institution. For example, industry representatives in Chicago noted that their institutions will not make mortgage loans to undocumented immigrants because the "secondary market will not purchase these loans" (Congressional Hispanic Caucus Institute, 2004).

As the above discussion suggests, there are several education, counseling, and financial literacy programs that are designed to overcome peoples' fears and confusion with the homebuying process. But there are currently only a handful of pilot programs nationally that are attempting to resolve the documentation requirements in the mortgage application process. Mortgage lending institutions have developed more flexible products that accept alternative forms of income and credit history (see Relaxed Mortgage Underwriting section above), and both standard and affordable lending products have never required U.S. citizenship for mortgage approval.

WHEDA and MGIC Offer Undocumented Immigrants a Chance to Own a Home

Announced in April 2004, the Wisconsin Housing and Economic Development Authority (WHEDA) has partnered with MGIC Corp., a large Milwaukee mortgage insurer, and four Wisconsin banks to help lenders provide more mortgages to undocumented immigrants. The pilot program uses nontraditional measures of credit, such as rent receipts and utility payments, and does not require borrowers to have SSNs. Instead, borrowers with an ITIN can qualify for a loan. All the loans will be structured as WHEDA loans and sold by the agency to the secondary market. WHEDA is the first governmental agency in the country to promote the use of the secondary market for ITIN loans.

Nonetheless, legal residence in the U.S. is required for mortgage approval by these lenders. According to industry representatives, mortgage institutions can "do good outreach" to the Hispanic immigrant community, but they still "run up against the fact that people don't have valid Social Security Numbers" (Congressional Hispanic Caucus Institute, 2004). These representatives call for both more flexible underwriting guidelines that accept alternatives to SSN (e.g., for Individual Tax Identification Numbers or ITINs[51]) and for the creation of a secondary market for ITIN loans.

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[51] The ITINs is a tax processing number issued by the Internal Revenue Service (IRS) to individuals, regardless of their immigration status, who require a tax payer identification number but do not qualify for a SSN. An ITIN is only intended for tax purposes and does not qualify recipients for Social Security Benefits or change their immigration or work status. The use of ITINs in lieu of SSN for the mortgage application process is complicated by the fact that the IRS does not validate the identity of the recipient or

The Potential Impact of Various Approaches for Increasing Hispanic Homeownership

Overall, there is relatively little research that has evaluated the effectiveness of various strategies for increasing homeownership among low-income or minority households generally, let alone among Hispanics specifically. In particular, there has been almost no research in recent years that has examined the effectiveness of efforts to address informational barriers or to overcome obstacles in real estate and housing markets. By far the largest body of research has been studies that have examined the potential for increasing homeownership opportunities by expanding access to mortgage financing. However, not all of these studies provide separate estimates for Hispanics. In order to have some understanding of what is known about the potential effectiveness of various approaches for increasing Hispanic homeownership, the following section summarizes the existing literature related to each of the three broad strategies for expanding homeownership opportunities.

The Effectiveness of Information Strategies

One of the most common efforts to promote low-income homeownership over the last decade has been the provision of homeownership education and counseling (HEC). As described earlier, HEC programs have two goals: to increase the number of households who become homeowners and to lower the probability of default among these households. While there has been a fair amount of emphasis on the use of HEC as a means of promoting homeownership, there has been very little research that has evaluated the effectiveness of counseling in achieving these goals. Since the 1970s, when a few studies were conducted that were methodologically weak and inconclusive, no new research has examined the question of whether counseling is effective in increasing the likelihood that a minority or low-income households will become homeowners. In their review of the literature on HEC programs, McCarthy and Quercia (2000) describe the dearth of research on counseling effectiveness in this regard and conclude that "there is little tangible evidence that HEC works to expand or stabilize homeownership." On the other hand, there have been a few recent studies that have examined the effectiveness of HEC in lowering default probabilities, but none that report results separately for Hispanics.

Hirad and Zorn (2002) and Hartarska *et al*. (2002) both examine the relationship between HEC and mortgage default, and conclude that HEC programs reduce mortgage default rates. Hirad and Zorn (2002) find lower 90-day delinquency rates that are statistically significant among borrowers who receive HEC. They find that individual counseling is found to have the largest impact, lowering the probability of serious delinquency by 34 percent. Classroom and home study counseling are also found to lower the probability of delinquency by 26 and 21 percent, respectively. Telephone counseling is found to have no statistically significant impact. There were no statistically significant differences in delinquency based on the type of organization delivering services. Hartarska *et al*. (2002) estimate a hazard model to examine the relationship between the receipt of counseling services and the probability of foreclosure, and find that the program is associated with lower default risk as counseled borrowers had one-half the hazard rate of non-counseled borrowers.

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the authenticity of any identity documents, and thus financial institutions and mortgage lenders are hesitant to use ITINs. However, ITINs provide compliance with federal tax laws.

However, both of these studies should be interpreted cautiously because it is unclear whether the effectiveness of HEC is due to selection bias rather than benefits from the services provided. That is, it is possible that HEC is effective not because the services provided are addressing information gaps among potential borrowers, but rather because the counseling process is a better way of identifying low-risk borrowers than standard underwriting criteria alone. Hirad and Zorn's attempted to control for this selection bias, but had limited success, and Hartarska *et al*. make no attempt to control for this selection bias.

A study by Staten *et al*. (2002) is notable in this regard by including more rigorous controls for selection bias in examining the impact of credit counseling on borrower behavior. While Staten *et al*. examine consumer credit counseling rather than homeownership counseling, their findings nonetheless lend support to the argument that even after controlling for selection bias, counseling can have an impact on the counselees' subsequent credit management. This study creates a pseudo-control group from credit bureau data by identifying households with similar credit profiles to those that received services, but are located in areas not served by the counseling agencies and so could not have been aided by these groups. These researchers find that counseling did improve clients' credit profile over a three-year period in comparison to the control group. The impacts were greater on those borrowers who started with the weakest credit measures. Improvements were evident in such measures as fewer accounts open, lower debt levels, fewer delinquencies, and greater improvements in credit scores.

The Effectiveness of Real Estate and Housing Market Strategies

To date, we are not aware of any studies that examine the impact of strategies designed to overcome barriers in the real estate and housing markets on homeownership rates. In particular, the effect of developments cost subsidies, regulatory relief, and a reduction in discriminatory practices on Hispanic homeownership rates is unclear.

One related study by Galster *et al*. (1999) demonstrates the potential for expanding homeownership opportunities through the combined removal of discriminatory, information, and supply-related barriers may not be large. This research relies on the assumption that white, suburban households face few, if any, barriers to homeownership due to a lack of information about homebuying, discrimination, or a lack of housing that is suitable and attractive for ownership. The researchers first estimate a statistical model that predicts the likelihood that white, suburban households would make the transition from renting to owning. This model is then applied to low-income and minority renters to see how many more of these households would be predicted to own if they had the same likelihood of becoming an owner as their white, suburban counterparts. Galster *et al*. estimate that there would have been 522,000 additional homeowners in 1992 if all renters (including Hispanics) moved to homeownership at the same rate as white, suburban renters. This increase corresponds to a 0.6 percentage point increase in the overall homeownership rate. The gains are higher for lower-income households as they estimate a potential for increasing homeownership by 0.7 percentage points among households with income at or below 60 percent of area median income by and by 0.8 percentage points for those with incomes between 60 and 100 percent of area median income, compared to 0.2 percentage points for those with incomes above the area median. Thus, the authors estimate that overcoming these barriers would lower homeownership gaps by income, but only by about a half a percentage point.

The Effectiveness of Financial and Mortgage Market Strategies

Exhibit 4-7 draws from Herbert *et al*. (2005) to summarize the findings from the most comprehensive studies that estimate the potential for increasing homeownership by relaxing the income, wealth, and credit constraints imposed by mortgage underwriting criteria. The studies examine the impacts associated with many of the strategies discussed above, including reducing or eliminating down payment requirements, reducing mortgage interest rates, relaxing underwriting standards, removing credit barriers, and eliminating discrimination. However, only the Listokin *et al*. (2002) and Rosenthal (2002) studies provide results separately for Hispanics.

As shown in Exhibit 4-7, there are two different methodological approaches used in the studies: synthetic underwriting and constrained tenure choice models.[52] The *synthetic underwriting* approach estimates the potential for increasing homeownership among renter households by applying various underwriting criteria to the specific financial circumstances of individual households to identify how changes in underwriting criteria affect the number of households that could qualify for a mortgage. The approach compares the house value that a household could afford assuming various mortgage underwriting guidelines, subsidy programs, or efforts to lower housing or transaction costs to a target house value for each household – which is an estimate of an appropriate housing alternative for each household. If the household is able to meet the "synthetic" mortgage underwriting guidelines for the target house value under assumed market conditions, then they are deemed able to afford homeownership. Homeownership is considered out of reach for households that are unable to meet these guidelines. This methodological approach allows researchers to evaluate the potential impact of specific policies aimed at reducing financial constraints on the number of renter households who could afford to purchase a specific home.

Listokin *et al*., (2002) provide the most thorough analysis of the potential for different mortgage products to lower homeownership constraints. They use SIPP data from 1993-1995 to provide estimates of renters' income, assets, and debts to evaluate their financial circumstances and also incorporate estimates of taxes, insurance, closing costs and fees to mimic the underwriting process. A regression model of house values is used to provide an estimate of the most appropriate target house price for these renters. Listokin *et al*. apply underwriting criteria for 15 specific mortgage products,[53] including several more flexible options developed during the 1990s. As a result, the researchers are able to examine the impact of a wide range of policy options, for example, policies that reduce transaction costs and lower interest rates, down payment requirements, mortgage insurance costs, housing prices, supplement borrower income or supplement borrower wealth. The results are disaggregated by household race and ethnicity and income.

The results suggest that the potential impact on homeownership rates by race-ethnicity across the range of affordable products evaluated by Listokin *et al*. is not large. Compared to the current GSE standard underwriting guidelines, the potential gain in homeownership rates from these products is

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[52] See Herbert *et al*. (20054) for a detailed description of these approaches.

[53] The products include a range of affordable products introduced by the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, as well as products offered by lenders to be held in their own portfolios.

generally only between 0.5 to 0.9 percentage points for whites, 0.3 to 0.5 percentage points for blacks, 0.3 to 0.6 percentage points for Hispanics, and 0.4 to 1.0 for Other minorities. In fact, since the potential gain in white homeownership rates are larger in absolute terms than for blacks and Hispanics, these affordable lending products by themselves would not be expected to lead to a reduction in homeownership gaps between minorities and whites.

Exhibit 4-7

Summary of Research Estimating the Potential for Increasing Homeownership by Increasing Access to Mortgage Finance

Constraints	Study	Magnitude of Potential Increase In Ownership Rate (Percentage Points)
Synthetic Underwriting		
Downpayment Assistance	Listokin *et al*. (2002)	0.8 to 3.3 for whites 0.1 to 5.2 for blacks 0.1 to 7.0 for Hispanics
Reduced Mortgage Interest Rate	Listokin *et al*. (2002)	0.3 to 0.8 for whites 0.0 to 0.1 for blacks 0.1 to 0.2 for Hispanics
Relaxed Mortgage Underwriting	Listokin *et al*. (2002)	0.2 to 0.9 for whites 0.2 to 0.6 for blacks 0.3 to 0.6 for Hispanics 0.0 for <80% AMI 0.1 to 0.4 for 80-120% AMI 0.6 to 2.0 for >120% AMI
Constrained Tenure Choice Model		
Downpayment Assistance	Quercia *et al*. (2002)	7.7 for All Households 9.3 for black Households 8.5 for Low- and Mod-Incomes
Reduced Mortgage Interest Rate	Quercia *et al*. (2002)	0.4 for All Households 0.1 for blacks 1.2 for Low- and Mod-Incomes
Relaxed Mortgage Underwriting	Quercia *et al*. (2002)	3.2 to 3.4 for All Households 4.4 to 4.6 for black Households 4.1 to 5.4 for Low- and Mod-Incomes
Credit Barriers Generally, Including Combined Impact of Income, Wealth, and Credit History	Rosenthal (2002)	4.1 for white Households 1.3 for black Households 6.7 for Hispanic Households 6.4 for Other Minorities 11.1 for Bottom Income Decile 7.1 for 10^{th}-25^{th} Income Percentile 6.7 for 25^{th}-50^{th} Income Percentile 3.0 for 50^{th}-75^{th} Income Percentile

Sources: Herbert et al. (2005)

In addition, Listokin *et al*. conclude that specific policies would have little potential impact on homeownership rates, particularly among minorities. Surprisingly, reducing mortgage interest rates to 0 percent would not increase homeownership rates by much (0.2 percent among Hispanics). This reflects the fact that renters who are financially constrained are much more likely to lack sufficient wealth to purchase a home rather than to not have sufficient income. By far the most effective policy option is to provide borrowers with one-time cash grants, similar to the American Dream Down Payment program. The study suggests that grants of $5,000 have the potential to increase homeownership rates among whites and blacks by 0.9 percent, 1.0 percent for Hispanics and 1.6 percent for Other Minorities. This impact is much larger than any of the other types of policy options considered. Increasing the size of the grant to $10,000 would result in larger impacts: 5.2 percent for blacks, 7.0 percent for Hispanics, 5.3 percent for other minorities, and 3.3 percent for whites. As these findings suggest, this policy would have a large potential impact on narrowing the gap between non-Hispanic whites and minorities. The reason cash grants are more effective than other policy options is that these grants helps to remedy all financial constraints.

A significant drawback of the synthetic underwriting approach is that it comes to a simple "yes or no" answer regarding whether homeownership is feasible given a household's current financial circumstances. But Listokin *et al*. also find that a number of the households that were deemed by their analysis to be unable to afford to buy a home were actually observed in the SIPP data to have purchased a home by the end of the period of observation. Household financial circumstances are not static, so that through efforts to increase earnings and savings and an ability to tap families and friends, many renters are able to succeed in becoming owners. The *constrained tenure choice* approach accounts for this dynamic nature of household circumstances by estimating a statistical model of the probability that an individual household will become an owner. These models thus allow for the fact that even households with little income or wealth have some probability of buying a home. As a result, these studies generally find that efforts to reduce barriers have a larger potential impact on homeownership rates.

These studies also incorporate household characteristics that are known to be associated with the demand for homeownership (described in chapter 2), such as marital status, age, and the presence of children in the family, to measure a households' preference for homeownership and not just the financial ability to qualify for a home mortgage. However, a limitation of this approach for policy makers is that they generally cannot isolate the potential of specific policies on homeownership rates. For instance, these policies may indicate that a reduction in barriers to obtaining mortgage financing could increase homeownership rates by several percentage points, but these models cannot isolate which approach to reducing borrowing constraints is likely to be most effective.

Quercia *et al*. (2002) provide the most comprehensive analysis applying a constrained tenure choice approach to data from the 1995 American Housing Survey. While they do not report results separately for Hispanics, the results are nonetheless instructive about the approaches that are most likely to increase homeownership rates among low-income households. In general, Quercia *et al*. find that downpayment assistance has the greatest potential for increasing homeownership rates among low-income households, with the elimination of a downpayment requirement resulting in an increase in homeownership of 8.5 percentage points. Less dramatic reductions in the income and downpayment constraints are found to increase homeownership rates among these households by between 4.1 and 5.4 percentage points. The smallest impact is from reductions in interest rates of 2 percentage points, which results in only a 1.2 percentage point increase in the homeownership rate for low-income households.

Rosenthal (2002) focuses specifically on the importance of credit constraints in reducing homeownership rates and does report separately on Hispanic households.[54] Rosenthal uses the 1998 Survey of Consumer Finances to identify credit constrained households, non-credit constrained owners, and non-credit constrained renters. Credit constrained households are identified using survey questions that identify whether at any time in the past five years the household had a loan request denied, had a loan request only partially granted, or considered applying for credit but then chose not to because of an expectation of being rejected. By identifying credit-constrained households, Rosenthal can then estimate a tenure choice equation that is based solely on non-credit constrained households. The explanatory variables include household demographic characteristics (including age, marital status, race-ethnicity, gender, and size of the household), measures of income potential (including education level, current, past, and expected income, measures of income stability, and health status), access to inheritances and gifts, and credit history (bankruptcies and recent missed loan payments).

Overall, Rosenthal estimates that the U.S. homeownership rate would be 4.0 percentage points higher in the absence of credit constraints. Across racial groups, the biggest potential gains are estimated for Hispanic and Other race households with increases in their homeownership rates of 6.7 and 6.4 percentage points, respectively. White homeownership rates would also rise by 4.1 percentage points while the black rate would only rise 1.3 percentage points. Thus, given the relative changes in homeownership for different racial and ethnic groups, Rosenthal finds that a removal of credit barriers would narrow homeownership gaps for Hispanics and Other races, but widen gaps for blacks. The study also finds the largest influence of borrowing constraints on those with lower incomes.

Summary of Findings

This chapter reviewed the various strategies for overcoming the main barriers to homeownership faced by Hispanic households. Approaches to overcoming barriers that are associated with a lack of information include informational homebuying programs, financial literacy programs and outreach, and bi-lingual information approaches. Strategies for overcoming real estate and housing market barriers include development cost subsidies, providing regulatory relief, and reducing discriminatory practices. Finally, there are numerous strategies for overcoming financial and mortgage market barriers, including down payment and closing cost assistance, income subsidies for mortgage payment, relaxed mortgage underwriting guidelines, reduction in discriminatory practices, reducing mortgage interest rates, and resolving residency status.

[54] Gabriel and Rosenthal (2005) employ the same methodology to data from the Survey of Consumer Finance covering the period from 1983 to 2001. However, by focusing on a single year Rosenthal (2002) is able to include more explanatory variables and so provides a better estimate of homeownership gaps controlling for all available and relevant factors.

Taken as a whole, the policies discussed in this chapter highlight several important challenges to both developing and evaluating strategies that target Hispanic households. First, policies that would help Hispanics are designed to help low-income households and, to a lesser extent, immigrant households generally. These policies are given a Hispanic focus by marketing and outreach efforts by local groups that serve Hispanic communities. However, because most of these initiatives are designed to help all low- and moderate-income households, including many low-income white households, the overall impact on narrowing the homeownership gap between Hispanics and non-Hispanics may only be slight.

Second, it is difficult to catalogue the myriad programs and services available to help Hispanics specifically – as well as all households generally – become homeowners. A broad range of government, non-profit, and private sectors organizations have been involved in efforts to assist Hispanics, but only anecdotal information about these efforts is available through articles in popular and industry publications. Nonetheless, since the early 1990s, the importance of, and attention to, Hispanics in the housing market is growing, with a steady stream of published articles reporting on efforts by Hispanic advocacy groups, lenders, and other interested groups to address key barriers to Hispanic homeownership. These efforts can be divided into two broad categories: efforts to overcome informational barriers through homeownership and financial literacy education and counseling; and efforts to develop mortgage products that serve households that have difficulty meeting traditional underwriting standards regarding debt to income ratios, down payment and closing cost requirements, credit history standards, and documentation of income and savings. Efforts to overcome informational barriers can be tailored to aide Hispanic households by developing bi-lingual and bi-cultural curriculums, focusing on Hispanics' lack of trust and comfort with the U.S. banking system, and by targeting neighborhoods and employers were Hispanics live and work. In addition, lenders can also target tailor their products to help Hispanics by allowing for alternative sources of income and credit documentation, and also by creating a secondary market for loans that use an ITINs in lieu of a SSN.

Lastly, little is known about the effectiveness of various approaches to increasing homeownership, and even less is known about their effectiveness on Hispanics specifically. While the sharp rise in Hispanic homeownership since the early 1990s – a gain of more than 10 percentage points between 1993 and 2005 according to Current Population Survey data – suggests that efforts to address barriers to Hispanic homeownership have been successful, very little is known about what approaches are most successful in different circumstances. For example, informational barriers seem very important, particularly for immigrants, but no research has attempted to estimate the potential of these efforts to increase Hispanic homeownership. One of the major challenges to rigorously estimating the impacts of these strategies on Hispanic homeownership is developing methodologies that can accurately sort through the many factors that contribute to a households propensity to become a homeowner. For all households, evidence (described in Chapter 2) suggests that the confluence of basic socioeconomic characteristics – such as age, income, wealth, and household type – and residential location can influence a household's decision to become a homeowner. In addition to these factors, characteristics unique to some Hispanics – such as language proficiency, country of origin, and citizenship status – further complicate the ability of researchers to isolate the independent effects of a specific policy intervention. For example, if an education and counseling program does not significantly increase homeownership rates among Hispanics, is it because of the program's curriculum or because Hispanic households have less desire to own because their expected length of stay in the U.S. is temporary? Some research has attempted to estimate the impact of mortgage underwriting constraints on the attainment of homeownership, and a few of these studies specifically control for ethnicity. These studies have found that among Hispanics, as with other low income groups, a lack of savings for down payment and other costs are much more important than low incomes or even poor credit.

Nevertheless, large gaps in our understanding of effective policy interventions persist. Closing this gap is increasingly important, as the number of Hispanic households increases dramatically during the next few decades, and requires considerable more research to evaluate what types of barriers are most important for Hispanics and to evaluate what types of strategies are most effective.

Chapter 5
Conclusion

This report provided a descriptive analysis of Hispanic homeownership rates and gaps in an effort to understand the major barriers that restrict homeownership opportunities for this group. The report used decennial census data to describe the size of the Hispanic homeownership gap and major trends since 1980. The descriptive analysis was supplemented by the literature on Hispanic homeownership in order to identify the main demographic and socioeconomic characteristics that are associated with the gap. The report also discussed the main barriers to Hispanic homeownership beyond the demographic and socioeconomic characteristics of Hispanic households to include problems accessing mortgage financing, discriminatory treatment in both the housing and mortgage markets, and a lack of understanding and comfort with the homebuying and mortgage process. The final chapter in the report discussed existing efforts to address these barriers and the limited extant research on the potential effectiveness of these approaches.

Chapter 1 demonstrated that Hispanics are becoming an increasingly sizable proportion of the U.S. population, and the Hispanic community is very diverse. Hispanic households come from many different countries and differ across many demographic and socio-economic characteristics. Some Hispanics are born abroad or speak English poorly, while others are native-born citizens or speak English fluently. A portion of the Hispanic community are immigrant households, and some of these households have been in the U.S. for many years, while others have been in the U.S. for only a few years. In terms of residence, most Hispanic households are located in the South and West, particularly in California and Texas, and a few metropolitan areas in the Northeast also have very high concentrations of Hispanic households.

These characteristics are important, not only because they highlight the enormous diversity among Hispanic households, but also because they are critical to understanding how Hispanic homeownership rates and gaps may change over time. Chapter 2 provided a series of cross tabulations using census data to explore the relationship between these characteristics and homeownership rates and gaps. The analysis, supported by a literature review, found that age, income, level of education, net worth, household type, nativity, country of origin, degree of social integration (citizenship status and years in the U.S.), and place of residence were important factors that explained the gap in homeownership rates among Hispanics and non-Hispanic whites. The data demonstrated that Hispanic homeownership rates increase and gaps decrease with age, income, and wealth, and educational status. Marriage was also a strong determinant of homeownership.

Also, among the immigrant-related characteristics, country of origin, citizenship status, and years in the U.S. were found to be important determinants of Hispanic homeownership. Homeownership rates increased with citizenship and length of stay in the U.S., but arrival cohorts effects were evident. That is, the homeownership rates of more recent immigrant groups have not risen as much overtime as earlier immigrant cohorts. The analysis also indicated that the concentration of Hispanics in high cost housing markets could depress Hispanic homeownership rates in these areas.

The descriptive analysis was supported by the existing literature on homeownership, generally, and on the emerging literature on Hispanic homeownership, specifically. Research suggests that individual "endowment" factors (such as income, age, education, family type, gender, and characteristics of the housing market where Hispanics reside) explain between half and three quarters of the racial and ethnic gap in homeownership rates among Hispanics. Much of the remaining gap appears to be related to the large share of Hispanics who are immigrants, at least based on the findings of one study that includes the broadest set of variables to explain Hispanic-white homeownership gaps.

The high share of Hispanics who are immigrants contributes to a number of key barriers to Hispanic homeownership, including information gaps about the homebuying process, barriers in the housing market and barriers in the mortgage application process. Chapter 3 described these barriers and how they impinge on the homebuying process. For example, information gaps about the homebuying process, the importance of establishing a financial history, and the mortgage qualification process can discourage some Hispanics from pursuing homeownership either because their misunderstandings about the process lead them to believe that homeownership is unaffordable or too complicated, that banks are not to be trusted, or that they do not qualify for a mortgage due to their credit history. Similarly, housing affordability concerns and the perception of discrimination in the housing market may chill interest in pursuing homeownership by putting it out of reach of many Hispanic households or by making housing search excessively difficult. These concerns are exacerbated by poor credit histories, low wealth and income, lack of proper documentation, and the potential for racial and ethnic discrimination in mortgage application process. These mortgage market barriers can lead to frustration with the mortgage application process and prompt some Hispanics to give up or view homeownership as an unaffordable opportunity. Furthermore, racial and ethnic discrimination in the mortgage application process can limit a household's search for housing and even shut out Hispanics altogether.

Although the confluence of all of these barriers may seem insurmountable, communities across the country have developed local programs that have successfully moved Hispanic households into homeownership. This success is evidenced by the more than 10 percentage point increase in Hispanic homeownership rates from 1993 to 2005. Chapter 4 discussed many of these programs, including: informational homebuying programs, financial literacy programs and outreach, bi-lingual information approaches, development cost subsidies, providing regulatory relief, reducing discriminatory practices in both the housing and mortgage markers, providing down payment and closing cost assistance, income subsidies for mortgage payment, relaxed mortgage underwriting guidelines, reducing mortgage interest rates, and resolving residency status concerns. These policies are often designed to help all low-income households, but are marketed and tailored by local groups that serve Hispanic communities. For example, efforts to overcome informational barriers can be tailored to aide Hispanic households by developing bi-lingual and bi-cultural curriculums, focusing on Hispanics' lack of trust and comfort with the U.S. banking system, and by targeting neighborhoods and employers were Hispanics live and work.

Yet, as Chapter 4 also demonstrated, it is difficult to catalogue the myriad programs and services available to help Hispanics households because there is only anecdotal information about efforts to specifically aide these households. As a result, little is known about the effectiveness of various approaches to increasing homeownership, and even less is known about their effectiveness on Hispanics specifically. One of the major challenges to estimating the impacts of these strategies rigorously on Hispanic homeownership is developing methodologies that can accurately sort through the many factors that contribute to a household's propensity to become a homeowner. Current approaches successfully capture important factors that can be quantified relatively easily – e.g., income, age, gender, credit score, and down payment assistance – but less quantifiable factors—e.g., a household's expected length of residency in the U.S. and sense of personal and financial attachment to the U.S. are more elusive.

Taken as a whole, the chapters suggest that Hispanics face considerable barriers to homeownership in the U.S. and the ability of homeownership programs – formed at all levels of government and within private and community-based groups – to overcome these barriers remains unclear. In particular, our understanding of Hispanic homeownership rates and gaps suffers from two shortcomings. First, most of the existing literature on homeownership focuses on all U.S. households generally and on the gaps among whites and African-Americans. Some of the lessons learned from these studies are applicable to Hispanics, but as this report suggests, there are numerous challenges to accessing homeownership opportunities that are particular to Hispanics. Second, the literature on the impact of different policy approaches on increasing homeownership rates among Hispanics is severely lacking. Anecdotal evidence from various communities across the country provides an important starting point from which to craft more informed policies, but the long term success of homeownership programs that target Hispanics will rely on more rigorous empirical studies.

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Appendix A

Lower and Upper Boundaries of Each Income Decile, 1980-2000

	1980		1990		2000	
Decile	**Lower**	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
1	$0	$4,005	$0	$6,848	$0	$10,000
2	$4,006	$7,025	$6,849	$12,024	$10,001	$18,000
3	$7,026	$10,035	$12,025	$17,867	$18,001	$25,600
4	$10,036	$13,320	$17,868	$23,400	$25,601	$33,400
5	$13,321	$16,810	$23,401	$29,427	$33,401	$41,900
6	$16,811	$20,255	$29,428	$36,000	$41,901	$51,400
7	$20,256	$24,405	$36,001	$43,932	$51,401	$63,200
8	$24,406	$29,720	$43,932	$54,436	$63,201	$80,000
9	$29,721	$38,510	$54,437	$72,400	$80,001	$110,500
10	$38,511	$75,000	$72,401	$925,956	$110,501	$999,998

Sources: U.S. Census Bureau's Integrated Public Use Microdata Series (IPUMS) using the 1980 1% metro sample, the 1990 1% metro sample, and the 2000 IPUMS 1% sample.