Barriers to Home Purchase for African-Americans and Hispanics in Syracuse

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Abstract

African-Americans and Hispanics in Syracuse, New York, have lower homeownership rates than whites with comparable incomes, despite the availability of affordable housing. Using ethnographic methods, the study team examined home purchase by Hispanics and African-Americans as a multiphase process. Very few of the more than 100 households interviewed by telephone and in person had home-purchase experiences that paralleled the conventional process. They generally found homes through word of mouth rather than Realtors, and many encountered obstacles to finding, purchasing, and financing homes. Alternatives to conventional financing were relatively common, especially after 1975, and portfolio lending became increasingly important for African-American homebuyers. Barriers to homeownership included employment uncertainty, lack of understanding about the homebuying process, strict credit requirements, and cultural misunderstandings.

African-Americans and Hispanics in Syracuse have a lower rate of homeownership than whites, despite a relatively affordable housing market. In our efforts to understand why this is so, we began by examining the process of buying a house. We found that most members of the Syracuse housing industry, such as lenders, Realtors, appraisers, and attorneys, share an understanding of the "normal" stages in that process and of the components of a standard, low-risk mortgage loan. We use the term "cookie-cutter" to describe that process: Someone with sufficient income decides to buy a single-family home, saves enough for the downpayment, and finds the house through a Realtor or an advertisement. A Realtor helps to negotiate a market-rate price with the seller, the prospective buyer goes to a local lender for a mortgage, and the closing takes place 60 days later. This normative model seems to be based, perhaps unconsciously, on the experiences of middle-class white homebuyers.

Using telephone and in-depth personal interviews with homeowners and renters, we also found that within our study population of a little more than 100 households, very few have had home-purchase experiences that match the "cookie-cutter" stereotype. African-Americans and Hispanics interviewed most commonly found the homes they bought through word of mouth rather than Realtors, and many encountered failures in the course of finding, purchasing, and financing a home. Alternatives to conventional financing have become relatively common, especially since 1975. Portfolio lending is an increasingly important means of enabling African-Americans to buy a house. Some of the barriers to homeownership that we identified are employment uncertainty, lack of understanding about the homebuying process, strict credit requirements, and cultural misunderstandings between applicants and the lending community. Martha's story exemplifies the highs and lows of homeownership experienced by many of the participants in our study.

Martha, a black woman, achieved the American dream of homeownership in 1991 by buying a comfortable, older house on a tree-shaded street in Syracuse. Her parents had owned the house in which she was reared, and she had always aspired to purchase one someday. While they were married, Martha and her husband moved several times in pursuit of educational and job opportunities. After the couple separated, Martha and their teenage boys shared an apartment. Soon she consulted Realtors to help her buy a house. Martha had very good credit, as well as savings to use for the downpayment. The loan on the large wood-frame house was obtained from a mortgage company.

Martha's story would seem to fit within the cookie-cutter model of homebuying. When we examine it in more detail, however, we find significant discrepancies. As Martha tells the story, her soft voice rises with indignation. Pressured by extremely high rent at the apartment complex, she was eager to find an affordable house. But the search process took a long time, because many houses had structural flaws or were too small. Some of the Realtors tried to steer Martha to predominantly African-American neighborhoods, and she also had a negative experience with financing. She was prequalified by a local lender for a mortgage up to $45,000, but a bank employee discouraged her, claiming that no houses were available in that price range. Therefore, when Martha found a home she wanted to buy, she went to a mortgage company to obtain financing. The real estate broker who owned the house took advantage of Martha's sudden illness and a family crisis to pressure her into making a quick decision. The sale price, $35,000, was high relative to the house's condition, and Martha later realized that her home needed extensive repairs. Community development rehabilitation funds enabled her to correct the most serious flaws, and she has since used her own money to continue making improvements to the house.

As Martha's experience illustrates, minorities who buy homes in the inner city do so in ways that are often quite different from the normative model. In fact, a detailed study of any population might show that only the rare home purchase actually conforms to all aspects of the model. However, the model's divergence from the experiences described by our study's participants focuses on homebuying as a process, thus leading to a more structured understanding of the way that failures occur. In this article we discuss the barriers to homeownership that may be present at any phase of the process. Stories from our respondents demonstrate some of the strategies that have been used to overcome obstacles to homeownership and those strategies lead us to a series of recommendations.

Research Methods

Both of the authors are residents of Syracuse's inner-city neighborhoods, the target community where most members of our study population live. Stephen Cogswell bought his house for $30,000 in 1987, when his annual income was about $9,000. Susan Hamilton paid $55,000 for her house in 1988, when she earned about $10,000 a year. Both authors assumed mortgages from the sellers, and at the time of this research both worked as community organizers for Syracuse United Neighbors (SUN), a nonprofit, membership-based advocacy organization founded in 1978. One of SUN's primary objectives is to increase homeownership opportunities in low- and moderate-income neighborhoods of the city. Steve worked for SUN for 8 years, and Susan has worked there for 4. In effect, we serve also as cultural brokers, counseling individuals on credit, homebuying, mortgage financing, home-improvement loans, and mortgage default. Our interlocking set of personal and professional relationships with African-Americans and Hispanics greatly facilitates the achievement of rapport and gives us a fairly high level of confidence in the veracity of the information they have shared with us.

Fieldwork for this study was conducted between March and July 1995. We conducted 20 indepth interviews: 12 with homeowners (2 as part of a focus group) and 8 with heads of households that were renting. In addition, we did telephone interviews with 103 homeowners. Conversations also were held with local lenders, Realtors, landlords, and cultural brokers, to get their sense of the barriers to homeownership faced by African-Americans and Hispanics in Syracuse. Before the project was finalized, we invited renters and homeowners participating in our study to an informal presentation and discussion of the results.

Telephone Interviews

All of the homeowners interviewed by telephone were members of SUN or were known to us through their contacts with the organization. The telephone interviews covered four basic topics, although many respondents volunteered additional information and others could not recall all of the details requested. With one exception, the telephone interviews were conducted in English.

It is significant that only one homeowner who was contacted refused to participate in a telephone interview. We eliminated another respondent from our analysis because, although willing, she was unable to recall anything other than moving to Syracuse in 1944. Of the 103 remaining respondents, 97 were African-Americans and 6 were Hispanics. Thirty-four households in our study purchased homes prior to 1975, 30 bought during the 10-year period from 1975 to 1984, and 39 became homeowners between 1985 and July 1995.

Extended Interviews

From among the households interviewed by telephone, 11 African-American homeowners and 1 Puerto Rican were selected for extended interviews. Although a few of those families had purchased their homes in the 1960s and 1970s, we concentrated on more recent buyers whose experiences were likely to reflect current market conditions. One-half of those who participated in the extended interviews had bought their homes since 1991. None of the homeowners was compensated for the interview.

To identify creditworthy renters for the study, we contacted colleagues at nonprofit housing agencies in Syracuse and asked them for referrals. One agency provided us with a list of Syracuse Housing Authority (SHA) tenants who earn $18,000 or more per year and who are therefore eligible for HOPE III, a U.S. Department of Housing and Urban Development (HUD) program designed to move public housing residents into homes as owner-occupants. We interviewed three renters from this list, as well as an additional person who rents on the private market and was referred by the same nonprofit agency. Three more creditworthy renters were recruited for the study through personal contacts, and the remaining interviewee came to SUN for advice on buying a home. Seven of the renters were African-American and one household was Puerto Rican. None was a member of SUN. Two of the renters were in the final stages of buying a house at the time of our interviews. Four others were looking for a house to buy (one has since succeeded), and one was living in an informal “rent with an option to buy” arrangement. The remaining renter was emphatically disinterested in owning a house, either at present or in the future. All of the renters who agreed to be interviewed were offered $20 as compensation, although one declined the payment.

Ages of the interviewees—both homeowners and renters—ranged from the mid-20s to about 70. Seven households consisted of married couples (with or without resident children), six were single parents, and seven were individuals. However, one of the single persons had a roommate, and an older woman took primary care of her grandchildren. Two of the couples were interviewed jointly, and those were counted as single interviews. Most interviews took place in the home, although some renters preferred to come to the SUN office. All interviews, ranging in length from about 45 minutes to several hours, were tape-recorded with the participants' permission. One Puerto Rican family chose to be interviewed in Spanish.

A Glimpse of Syracuse

The official seal of Syracuse boasts of the city's past glory as a center of manufacturing: The image shows a line of smokestacks rising over the salt works that constituted the city's first industry. The Erie Canal was brought directly through the city center in the 1820s, linking Syracuse with both New York City and the Midwestern frontier. The canal attracted German, Irish, and Italian immigrants. In the mid-19th century Syracuse was an important stop on the Underground Railroad, the clandestine route that took escaping slaves to safety in Canada. During and after World War II, large factories provided employment opportunities that drew many people to Syracuse, including African-Americans from the South.

The city's total population, according to the 1990 census, is 163,860 persons residing in 65,046 households. Syracuse ranked 13th in a national study of the extent to which the poor are segregated from the rest of the population in 100 U.S. metropolitan areas, and 4th for the rate at which this segregation is increasing (Abramson et al., 1995). In the decade between 1980 and 1990, persons categorized as nonwhite by the census increased to 25.1 percent of the total city population. During the same period, the number of persons of Hispanic origin grew to a total of 4,177 individuals, or 2.5 percent of the city population. The Hispanic community appears to have continued to grow since the 1990 census. During the 1980–90 decade, Syracuse's African-American population grew at a rate of 29.3 percent, representing 20.2 percent of the city's residents by 1990. This population also appears to have continued to increase since the last census. (Bureau of the Census, 1990).

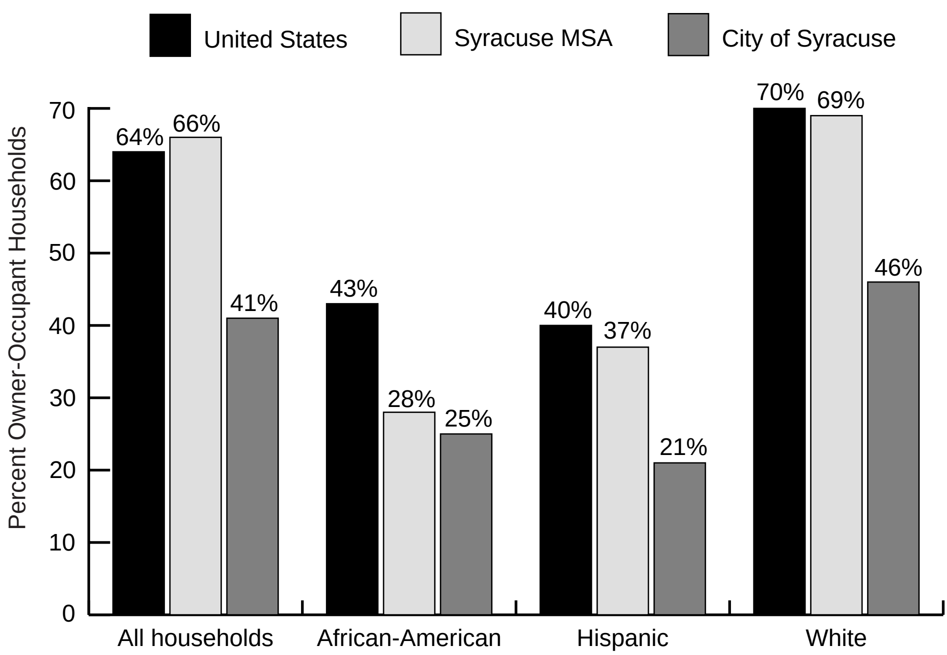
Despite the increase in minority residents, the total population of Syracuse has declined over the past few decades. The reasons for this decline may be symbolized by the city's former claim to be the "typewriter capital of the world." Just as typewriter technology has become largely obsolete, many other Syracuse factories have gone out of business, have moved to other States or countries, or are drastically downsizing their workforces after mergers (Seely, 1995). Some of the surviving businesses have relocated to the suburbs, followed by many of the city's white residents. Abandoned brick buildings, the remains of the old factories and shops, are still visible around the edges of downtown.

Current Conditions

The city's high-paying manufacturing jobs have been partially replaced by service industries. Because of Syracuse's central location in upstate New York, it is a regional center for banks and insurance companies. Several former department stores in the central city now house offices for the local utility and an insurance company. But these jobs often do not pay as well as the old industries, and recent corporate layoffs and mergers make many

Figure 1

Owner-Occupied Households in the United States, the Syracuse MSA, and the City of Syracuse—1990 (in Percent)



Source: 1990 Census of Housing.

residents uncertain about future employment stability. The new white-collar jobs seem not to be readily available to residents of the largely African-American inner-city neighborhoods in our target area. At the time of the last census, these neighborhoods had unemployment rates that were more than twice as high (about 21 percent) as the rest of the city and surrounding suburbs.

Owner Occupancy, Mortgage Lending, and Housing Affordability

According to the 1990 census, the owner-occupancy rate of 66 percent for the Syracuse Metropolitan Statistical Area (MSA) is similar to the rate of 64 percent reported for the United States as a whole (U.S. Department of Housing and Urban Development, 1995). This similarity applies to both whites and Hispanics. However, for African-Americans in Syracuse, MSA owner-occupancy rates are considerably lower than the national average (see figure 1).

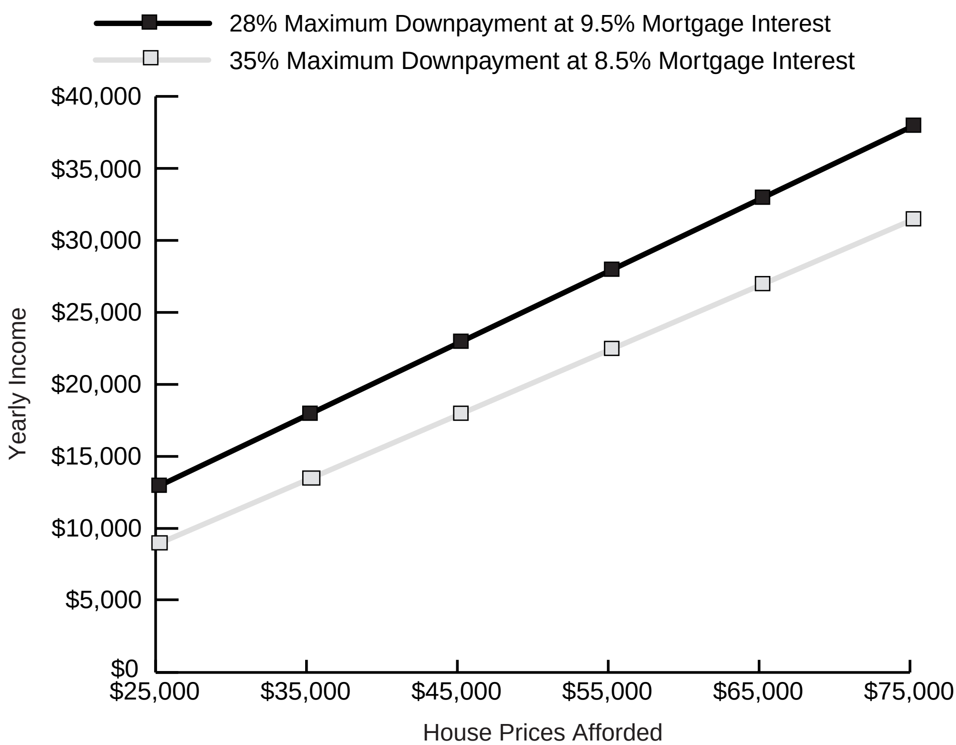
In the city of Syracuse, owner occupancy falls below both MSA and national averages, and the pattern is consistent for whites, African-Americans, and Hispanic-Americans. There is also a marked disparity between whites and the other two groups. While 46 percent of white households were owner-occupants in 1990, only 25 percent of African-American and 20.7 percent of Hispanic households were homeowners. Thus African-Americans in Syracuse were less than two-thirds as likely to be homeowners as were whites, and Hispanic households were less than half as likely.

Judging by the Home Mortgage Disclosure Act (HMDA) aggregate data for 1992–94,[1] this disparity did not begin to improve until very recently. For 1992 and 1993 combined, Hispanics and African-Americans were less than half as likely even to apply for a home mortgage as were whites. Although African-Americans comprised 5.3 percent of the population in the Syracuse MSA, they represented only 2.6 percent of mortgage applications. Hispanics accounted for 0.9 percent of the MSA population but less than a 0.4-percent share of the applications. A preliminary look at the 1994 HMDA data shows that the disparity in application rates had begun to decline by that year. The proportion of all minority and of African-American applications increased to 3.5 percent of the total, and Hispanic applications increased to 1.6 percent. This change may be due in large part to the introduction and widespread availability of low-downpayment mortgages and the fact that several local lenders targeted marketing strategies to minorities (Cogswell, 1996).

The lower rate of mortgage applications by Hispanics and African-Americans cannot be explained as simple rejection of these groups' applications by lenders. The rate of loan originations for African-Americans in the Syracuse MSA has improved steadily each year since 1992. By 1994 the mean denial rates throughout the entire MSA were nearly identical for African-Americans and whites. In general, however, African-Americans still had a higher loan-denial rate than whites within most geographic subareas of the MSA.

Figure 2

Annual Income Requirement for Two Commonly Available 5-Percent Downpayment Loans for Houses of Various Prices, Syracuse



Source: Maxwell Consulting Group, 1993.

Hispanic applicants consistently received a mortgage more often than whites for each of the 3 years.

The lower mortgage-application rates for Hispanics and African-Americans cannot be explained as a simple lack of affordability. Housing is relatively inexpensive in Syracuse: 85 percent of the one- and two-family homes listed by real estate agencies in 1993 and 1994 sold for less than $65,000 (Greater Syracuse Association of Realtors, 1994). Even this figure is probably an inflated estimate of the average home-purchase price, because less-than-arm's-length[2] transactions—such as tax foreclosures, homes sold by Federal agencies, or sales between relatives—are not included. Thus households with a relatively low income can qualify for a home mortgage.

To establish a meaningful income standard for participants in this project, we analyzed mortgage-underwriting requirements and housing availability. For various commonly available 5-percent downpayment loans, households with an income as low as $10,000 could qualify for homes costing $25,000 (see figure 2). However, households with income that low would have to save 5 percent of their income for 4 or 5 years in order to acquire the downpayment and closing costs, even under the most liberal low-downpayment standard (Maxwell Consulting Group, 1993). Moreover, houses costing less than $25,000 represent less than 4 percent of the Syracuse market, and they commonly need substantial rehabilitation.

A household with an annual income of $15,000 could qualify for a house selling for up to $35,000. This price range constitutes about 11 percent of the housing market in Syracuse, and the houses usually do not need extensive rehabilitation. Even with interest rates reaching 9.5 percent and a more stringent monthly mortgage-payment/income ratio of 28 percent, the yearly income needed to support a mortgage for a $65,000 home is only $33,000. As mentioned above, this flexibility provides access to more than 85 percent of the arm's-length market.

This basic measure of affordability does not address the wide array of qualifications necessary to obtain a mortgage, including credit history, source of income, amount and source of downpayment, and overall installment-debt load. The study included a review of 14 major underwriting standards for 35 home-mortgage products offered by five Syracuse lenders that had an aggregate 59.8-percent market share as of July 1995. We found that the standards vary among lenders and among products offered by the same lender. Many loan products are specifically designed to address applicants' problems in meeting the more stringent standards of other mortgage types. The inability of lower income households to qualify for mortgages may result from the difficulty of matching them to more compatible loans or lenders. In fact, the recent introduction of these loan products may be largely responsible for improving the disparity in rejection rates among racial and ethnic groups. However, as discussed above, the primary reason why African-Americans and Hispanics have disproportionately few mortgages is not loan-rejection disparities but the barriers that keep minorities from applying.

A slight majority (50.2 percent) of African-American households and 47.2 percent of Hispanic households in Syracuse earn more than $15,000 per year. Because owner-occupancy rates for these two groups are 25 percent and 20.7 percent, respectively, it appears that many more creditworthy African-American and Hispanic households in Syracuse are qualified to purchase housing. The barriers to mortgage financing for these households should be sought in factors other than income, availability of suitable housing, or inevitable rejection by banks.

Encountering the Target Community

All but 5 of the more than 100 individuals interviewed during this study live in the target community, which is composed of 12 (and a portion of a 13th) contiguous census tracts on the west and south sides of Syracuse. According to the 1990 census, 34,214 residents live in 11,397 households in these neighborhoods. The median household income among the census-tract block groups ranges from $7,303 to $24,417. Of the target-area residents, 46.2 percent are white, 48.2 percent African-American, and 5.6 percent other minority. The Hispanic population averages 4.2 percent and reaches a high of more than 33 percent in two census blocks. Slightly more than one-half of the city's African-American and Hispanic households live within the target area.

A walk through a portion of the inner-city neighborhoods on Syracuse's southwest side gives a glimpse of the housing stock, the street life, and the institutions that serve these communities. On a Bellevue Avenue corner, loitering teens with sweatshirt hoods shielding their faces engage in drug dealing and dice games. When a police car drives slowly by, some of the teens retreat to a convenience store. On the opposite corner stands a well-kept wooden house whose owner, an elderly African-American woman, is afraid to sit on her front porch because turf wars among drug dealers occasionally result in gunfire. Several of the participants in our study live within a block of this corner. Most area residents are African-American.

As we walk north to White Street, the older, two-story wooden homes are interspersed with clusters of new houses built either in a vaguely Victorian style or as "raised ranch" homes. These single-family houses were constructed with community development funds by Jubilee Homes, a community-based, nonprofit housing agency supported largely by a coalition of local churches. Most of the new owner-occupants have planted flowers, fenced their yards, and added other amenities. Because of Jubilee Homes' efforts in this neighborhood that was once extremely blighted, other homeowners have stayed on and improved their properties.

A block farther north is West Onondaga Street, where Syracuse's elite built mansions during the 19th century. A plaque on one corner commemorates the founding of the Republican Party by several of the street's former residents. A number of the mansions in the street's 600 and 700 blocks are still private homes; but others have been subdivided into apartments or offices, and newer buildings contain additional apartments. A group home and subsidized housing administered by a religious agency have replaced some of the houses that were torn down.

Until recently, this area was known to police as the "combat zone." Drugs were sold openly from some apartment buildings or on the street, and prostitutes worked the sidewalks under the tree canopies. The West Onondaga Street Alliance—consisting of landlords, tenants, and office workers—began fighting to reclaim the street about 6 years ago. Working in conjunction with the police department, the Alliance has succeeded in getting the worst apartment buildings boarded up or sold to more responsible owners. Drug sales, loitering, and prostitution are no longer as flagrant, and loud music does not blast across the street at night.

Beyond West Onondaga Street lies the Westside. Residents of this area are a roughly equal mixture of African-Americans, Hispanics, and whites. Until the early 1970s, parts of the Westside were slated to be demolished for a freeway extension. Although the plan was never completed, the area was largely written off by the city's Division of Community Development. In the mid-1980s another quasi-private housing agency was established on the Westside. It rehabilitated some of the one- and two-family Victorian homes along

Kellogg Street and built new houses such as those on Holland Street. Like their neighbors to the south, both new and old Westside homeowners have made improvements to their houses. However, these buildings sit in sharp contrast to many neighboring ones whose absentee owners make few repairs and fail to choose their tenants carefully. Garbage overflows the sagging porches, broken glass litters the ground, and paint flakes off the buildings. Nine houses on a three-block stretch of Holland Street are vacant and boarded up. This area's homeowners and some tenants, many of whom are Hispanic, have banded together to form an active neighborhood watch group. As in much of the target community, there is a certain sense of conflict between homeowners and renters, between working people and those on welfare, and between residents' pride in their investment and dismay at the deterioration they see around them.

The area just described is not fully representative of the entire target area. Although one- and two-family frame houses predominate throughout the community, the rates of homeownership, racial composition, and household income vary. For example, along a tree-shaded creek on the Southside, housing values and household income are higher and African-Americans are more likely than their white neighbors to be homeowners.

The percentage of owner-occupant African-American households in the target area (25.8 percent) is only slightly higher than in the city of Syracuse as a whole (25 percent). However, in all but the two subareas with the lowest incomes, African-American owner occupancy is higher than the city average. African-Americans tend to buy homes in areas that already have high concentrations of African-Americans (Cogswell, 1996). In contrast, Hispanics appear to buy homes in areas other than those with a high proportion of Hispanics.

Throughout the target area, major thoroughfares show the signs of commercial abandonment faced by the city as a whole. This situation has had an impact on conventional city services similar to that found in other parts of the country (Troutt, 1993). All of the large supermarkets have withdrawn to the city limits, leaving the core inner city with little but convenience stores that sell mostly beer and lottery tickets. These small stores are now the primary places where welfare recipients cash their checks and receive their food stamps. As has happened in other parts of New York State (Stix et al., 1986), branch banking in inner-city areas has become increasingly rare. Within the target area, five empty buildings stand as hollow reminders of the bank branches that have closed during the past two decades; all but one of the local lenders have withdrawn to the downtown business district and the suburbs.

The Interview Subjects

Profiles of Respondents

The people who participated in the extended interviews were born in a variety of locations. Seven came from the South, while eight were born in northern cities, including Syracuse. Two couples came to Syracuse from Puerto Rico, and one person was born in Ghana. With few exceptions, the interviewees have lived in Syracuse since at least 1970. Pseudonyms have been used to protect the privacy of the interviewees. Pseudonyms chosen for homeowners begin with letters A through Q, while those for renters begin with letters R through Z. Interviews were tape-recorded, and all quotations are printed verbatim. Following are brief introductions of the households with whom the research team conducted extended interviews.

Bernardo is from Puerto Rico. He and his wife married while working in New York City and followed family members to Syracuse in the early 1970s. They were not planning to buy a house in 1978 but were approached by another Hispanic who wanted to sell and who convinced them to purchase.

Connie and Oscar, African-Americans, bought a new house through a nonprofit agency in 1991, using a community development subsidy. Although the purchase was achieved easily, they have faced problems with poor workmanship on the structure and with the surrounding neighborhood.

David, an African-American, bought a home for himself and his child in 1986, when he was a single father working for a large corporation. He went through a careful home-search process with the help of a Realtor, but when he applied for a mortgage, the bank rejected his application. He then obtained financing through a mortgage company.

Essie is an African-American orphan who grew up wanting a home of her own. When she married an older man a few years ago, he was paying very high rent on an apartment, and Essie insisted that they buy a house. Rather than use a Realtor or a bank, she negotiated directly with the seller, who financed the purchase.

Esther, an African-American, left New York City as a young woman and rented a home in Syracuse for decades during her long career with a major factory. She bought a ranch-style house in a predominantly white neighborhood outside the inner city in 1987, shortly before she retired.

Harriet and her husband, both African-Americans, have owned several houses in Syracuse. Since 1992 they have lived in one unit of an apartment complex that they own and manage.

While Joan, an African-American, was growing up in Syracuse, she and her mother had to move often from apartment to apartment. Joan tried for years to buy a house and finally succeeded in 1991, through the city's homestead program.

John brought his family to Syracuse when he was recruited for a professional job. This African-American couple, reared in the rural South by families that owned houses and land, has never rented. Within a month of arriving in Syracuse in 1966, John and his wife bought a home, assuming a mortgage from the white seller.

Langston grew up in Syracuse when African-Americans were still confined to one section of the city. In 1969, while working for a large manufacturer, he bought a house in an area that was still nearly all white. To obtain financing, he had to rely on the seller and a bank in another county.

Lily, an African-American, came to Syracuse from the Midwest in the late 1940s and lived in a variety of rental housing. After several failed attempts to purchase a home, she and her late husband entered into a rent-to-buy arrangement that made them homeowners in less than 4 years.

Marian, an African-American, moved to Syracuse after she finished college. In 1993 she was able to buy a house quickly with a Federal Housing Administration (FHA) mortgage and advice and free professional help from a number of friends.

Martha, who was reared in West Africa, came to Syracuse with her husband for educational and work opportunities. After the marriage ended, she bought a house for herself and her sons.

Reginald and his family, African-Americans, have lived for decades in a large complex of subsidized apartments but want to buy a home. Reginald is disabled, and the family's income is too low to qualify them for most community development housing programs. They are searching the list of foreclosed properties offered for sale by HUD for an inexpensive house that meets their needs.

Rhonda, an African-American, grew up in her parents' house near Syracuse and moved into the city to work. After renting in many locations, she is trying to save money for a downpayment. Rhonda worries about the stability of her job in the public sector and wants to start her own home-based business as a hedge against loss of employment.

Rosa, an African-American, moved to Syracuse from the rural South and works for a healthcare facility. After a lifetime of renting, including two decades in public housing, Rosa is buying a home. Although the HOPE III program did not work out for her, she made contact with a Realtor who persisted in the search and found a home that Rosa is purchasing.

Sonya, an African-American, lived much of her life in public housing and now works for a local manufacturer. She is completing the process of buying a rehabilitated single-family home through the HOPE III program.

Teresita and Rodolfo's home in Puerto Rico was destroyed by Hurricane Hugo. They used compensation from the Federal Emergency Management Agency (FEMA) to come to Syracuse in search of better opportunities, which they hope will include purchase of a house.

Toni, an African-American, was reared on her grandparents' southern farm and moved north as an adult. She brought her children to Syracuse to escape a violent domestic situation, and is now enrolled in college. Toni rents a house from a friend and plans to buy it when she finishes her schooling.

Vanessa, an African-American, grew up in Syracuse. Although she works in a field related to housing, she has no desire to own a home. A single woman in her thirties, Vanessa does not want the responsibilities that homeownership would entail.

Walt, an African-American, describes himself as a "city person" who grew up in New York City and moved to Syracuse to attend college. He has enjoyed being a renter, but as he moves toward middle age he has decided to invest in a house. Having worked two jobs for years, he is well positioned to do so.

In our larger sample of 103 homeowners interviewed by telephone, 70 respondents were women and 33 were men. While many of these households included both a male and a female, we interviewed the adult who happened to answer the telephone. Information on their ages is not reliable. Six of the homeowners were Hispanic, and 97 were African-American.

Housing Mobility

Nearly half of the households that participated in our extended interviews had lived in public or subsidized housing at some time in their lives. One family had lived in a shelter for victims of domestic violence. Experiences with mobility ranged from a couple that has never lived in rental housing to a woman who has lived in public housing nearly all her life.

Lily's story illustrates much of the variation. She grew up in a midwestern city, in a house owned by her parents. When Lily and her husband married, they moved to Syracuse and lived with her mother-in-law for about a year. Then they rented a whole range of accommodations, from a single room in a home to various apartments. Several of the buildings in which they lived were condemned, and the family had to move. For 5 or 6 years they lived in public housing. Later, after Lily and her husband separated, she and the children rented a house with an option to buy. But Lily relinquished that when she enrolled in college and moved into campus housing. After graduation, Lily rented another house that she hoped to buy, but the arrangement fell through. In 1983 she finally purchased a house through a rent-to-buy arrangement.

Urban renewal projects in the early 1960s forced the displacement of many African-American families in Syracuse. Joan recalls that when land was cleared for highways and hospitals, residents of the area were promised that they could move back and would be given first choice of new housing. But no housing was built, nor did Joan's mother, who was displaced, receive compensation, moving expenses, or help in finding a new place to live. Joan was a teenager at the time. Each evening, when her mother finished work, they walked around in search of an apartment. Rents were driven up because of the demand created by so many displaced families. Joan says, "I remember that lost feeling because … they said they were going to help us get a place … and the next thing I knew, they said 'you got to be out by this date, period,' and that was it. And nobody came and helped."

Prior to the advent of urban renewal, African-American families in Syracuse were largely restricted to living in the 15th Ward, an area near the center of the city. The neighborhood was racially mixed, as the Jewish population also was centered there. Langston, who grew up in the 15th Ward, recalls that most of the houses were owned by slumlords who left all repairs to the tenants at the tenants' expense. He also recalled that if an African-American family remodeled an apartment especially well, sometimes the landlord raised the rent or evicted them. Until the late 1960s, it was difficult for African-Americans to find property owners in other parts of the city who were willing to rent or sell to them.

Employment Opportunities

The African-Americans and Hispanics interviewed for the study have worked in a variety of occupations and settings. In addition, more than one-third are also landlords. Some have just an apartment in their home, while others manage as many as four other buildings, using the rental income to supplement their earnings or pension. Of the 103 homeowners contacted by telephone, 45 have at least one rental unit in the house they live in, and 9 households own additional investment properties.

All of the participants in the extended interviews have changed jobs, and many have switched among several quite different lines of work. John, for example, began by teaching school in the South, then was recruited for an agricultural extension job in Syracuse, and later went back to teaching. Martha, who has a degree in library science, but could not find employment in that field, works in the housekeeping department of a hotel. Bernardo is a skilled auto mechanic but has also worked in a foundry and now drives a city bus. Members of the renter households have jobs in the social-work, service, teaching, and office-work fields. One person is attending college full time.

Several people reported that they worked second jobs, and many had done so for years. They did so not only in the hope of buying a home but also to earn extra money for a variety of purchases. Many regarded the strategy of working two jobs as a routine means of advancement when earnings from their primary job were low. Joan reported that she worked four jobs simultaneously in order to purchase a new car. Only one of the interviewees still works in the manufacturing sector. The permanent layoffs and factory closings that began in 1970 have left the Syracuse job market very weak, and the predominance of service-industry and clerical positions held by our respondents reflects the work situation faced by Syracusans of all ethnic backgrounds.

Future Plans

Only a few of the households that discussed plans for the future are planning to leave Syracuse. One African-American wants to move back to Maryland when he retires; Bernardo and his wife will return to their hometown in Puerto Rico, where they are gradually building a second home. Many of their relatives follow the same strategy of retiring to Puerto Rico.

Teresita and Rodolfo, who are in their 20s, want to buy a home and stay in Syracuse, though they do not rule out having a second house in Puerto Rico some day. The couple is concerned about the responsibility of paying a mortgage for 30 years, especially while trying to educate their children.

Reginald and his wife have lived in a complex of subsidized apartments since their grown children were toddlers. They would like to buy a house that would be large enough to allow their daughters to operate a publishing business, but thus far the family has been hampered by low income and physical disabilities. Three other renter households also want to establish their own businesses. One of the motivations for buying a house is to have a base for such enterprises.

Household Finances

Most of the homeowners and all of the renters who participated in the extended interviews said that they have savings accounts in banks and/or credit unions. One woman keeps her cash at home so that she can avoid making trips to the bank. Others use a payroll deduction plan to accumulate savings, and one renter plans to set up a separate account in which to save money for the expenses associated with buying a house. Only a few of the respondents admitted to having little or no savings. Joan makes a practice of paying her mortgage and other bills several months ahead of time as a cushion against emergencies, rather than putting the extra money into a savings account. Walt comments, “My general philosophy in life has not been one to save for the rainy day.” In an effort to keep from depleting her meager savings account, one renter has given the passbook to her grandmother for safekeeping. The families living in public housing lamented that it is difficult for them to save money because their rent is raised whenever they receive a salary increase.

Several of the study participants, particularly the renters, revealed a lack of awareness about the way in which credit is perceived by the lending community and the type of credit history that is required to qualify for a mortgage. It appears that a number of households that could gain access to conventional financing misunderstand their own eligibility and preclude themselves from participating in the real estate market. Some, for example, have not examined their credit reports and assume that paid-off debts might still be reflected there. Others assume that if they have not established a formal history of installment debt lenders will equate that with a bad credit history and reject their application.

Some individuals, such as Joan, believe that their very promptness in paying credit-card bills and car loans works against them, because the financing institutions do not collect as much interest and, consequently, hold this practice against the borrower. Teresita says, “Here in the United States everything is credit.… For us, this was new.… Here you have to have a mountain of credit, enter into debt so that then they can see that you pay it off.”

This approach is contrary to the Puerto Rican cultural pattern of paying cash for most purchases. Teresita does not like to buy on credit, as it implies that the item is not yet hers although she has been paying for it for months. If she pays cash, the item belongs to her immediately and totally.

Lily, although she has excellent credit, has never tried to obtain a mortgage. Instead she prefers to pursue homeownership through a rental arrangement with the seller. One African-American renter has several credit cards but has never applied for a bank loan. A number of respondents mentioned that they prefer to borrow money from the credit union at their place of employment rather than from a bank. Only Bernardo had difficulty obtaining a loan from a credit union, and he has access to a second credit union through his wife’s job. Both Marian and Bernardo undertook to reduce their debt burdens before obtaining a mortgage. On the advice of her Realtor, Marian paid off a student loan and a note on her car. More than half of the renter households are now paying off past debts—some incurred by former spouses or partners—to enable them to qualify for mortgages.

Deciding on Homeownership

The first phase of the homebuying process includes the complex deliberations in which individuals and households weigh both the economic, cultural, and social factors that may impel them toward homeownership and the potential barriers they will have to overcome. If they decide that the benefits of owning a house outweigh the perceived disadvantages, they proceed to more active phases of the process. On the other hand, some individuals decide against it.

Joan recalled that she had always wanted to buy a home. For a few years, when they first came to Syracuse from Louisiana, she and her mother lived in a house owned by an aunt. Their later experiences with urban renewal made Joan long for greater control over her living environment. From this desire sprang a two-decade quest to buy a house.

Role Models

The decision to own a home often is influenced by an individual’s childhood experience and by the example set by an adult reference group, such as coworkers, fellow church members, friends, and siblings. Almost half of the homeowners and all of the renters (at least one spouse per couple) who participated in the extended interviews grew up in houses that were owned by their families. Two-thirds said they had other relatives who owned houses. A few years after Joan succeeded in purchasing her home, her son bought a vacant, tax-delinquent house across the street. He financed the purchase through his general savings and a loan from his mother. The son is currently rehabilitating the property while he continues to live with Joan.

The effect of these early examples can be profound. John, reared on a farm in Alabama, commented, “From a little child up, that was it. Homeownership was one of the things you would strive for. Nobody ever said that one was better than the other, but somehow you got the feeling it was.” Harriet describes the imprinting process as multigenerational. She and her husband “came from homes,” and all their children now own houses.

> It’s just something that we’ve expected, accepted. It’s like college folk, or people who have their own yachts. It takes three generations.… You buy a house because it’s part of our existence.… House was top of it. Comfort for the children and shelter from the elements. It’s just part of our dream; we grew up with it.

Bernardo places homeownership in the context of a cultural pattern. In Puerto Rico, he says, parents try to provide a piece of land where all their children can build houses, little by little. Even though young adults may leave the island for years, they generally expect to return one day and settle with their relatives. Teresita and Rodolfo corroborate this statement. While they were still living in Puerto Rico, Teresita's grandmother added a flat onto her own house for them; but the whole structure was destroyed by a hurricane. Now Rodolfo's father is encouraging them to begin construction on another house in Puerto Rico. Martha, who was reared in West Africa, also comes from a tradition of "family homes." A family home is shared by a set of siblings, although each nuclear family tries to establish its own house nearby.

In contrast to those who came from families that owned their homes, one-half of the homeowners who participated in the extended interviews reported that they had very few kinfolk who served as property-owning role models. For them, the decision to buy a house was spurred by other factors. Some respondents mentioned a religious impetus toward homebuying. One African-American man, reared in a renter household, said that the teachings of his church, which emphasize the value of having one's own property, were the most important factor in guiding his investment in a house. Another African-American man belongs to a church that has many homeowning members.

Esther said that "the Spirit" told her to buy a house. She allowed her spiritual guide to direct her to a particular home and believes that her ability to obtain financing was in large measure due to divine will: "When the Lord opens a door, no man can shut it."

Financial Considerations

The motivation for buying a house that was mentioned most frequently during the extended interviews was a desire to invest the money that one must spend on shelter in tangible property that will build equity. Marian said that buying a house is "better than paying off the landlord's mortgage." Toni added, "As a homeowner, I'm investing in my own." For some of the renters, however, the financial desirability of homeownership was offset by the conviction that they could not afford it. Walt said, "I just over the years have not been convinced that I could become a homeowner. I always thought that I was not financially equipped. I still hesitate about that."

A second financial incentive was the conviction that buying a house could be cheaper than renting. Martha said that rents at an upscale apartment complex "drove me out." Several households spent more for rent than they did for their subsequent mortgage payments. In fact, before they were married, Essie's husband had lived for 28 years in an apartment whose monthly rent had risen to $675. "He had paid for the house," Essie asserts. Rosa is now charged $485 a month for her apartment in public housing, while mortgage payments on the house she is buying will be $328 a month, including escrowed taxes. Moreover, Rosa said, the housing authority would have raised her rent to $500 because she received a salary increase.

A few homeowners initially had higher mortgage payments than rent, and in two cases the amounts were about the same. However, even those participants who paid equal or higher sums for house payments noted that rents on their former apartments have continued to rise and that they would be paying more in rent today than they are paying for a mortgage. Homeownership entails additional costs, of course, for maintenance and repairs, and some new homebuyers fail to give them adequate consideration when assessing the financial aspects of homeownership (discussed in more detail below). Concerns about home maintenance and repairs may, in fact, discourage some individuals from buying a house. An

African-American renter, noting that he is not good with his hands and did not want to do the work himself, accepted the need to pay for services as one of the lifestyle changes that homeownership would require. An African-American woman did not want to own a house when she was younger because, although she did not mind doing yard work, she was wary of problems such as water heater malfunction or leaks in the roof. However, the mere perception of saving money, in itself, can be a motivator toward home purchase.

A third financial consideration is the desire for income. As noted earlier, more than two-fifths of the homeowners we interviewed bought houses that would provide not only shelter for their families but also apartments that would supply a source of funds with which to pay the mortgage. Some of the African-American renters wanted to buy a home partly to have a base for a small business. One spoke of opening a daycare center in her basement someday. A second renter is trying to develop a secretarial service, and the adult children of a third household want to expand their publishing business.

Homeownership's perceived economic benefits may have nonfinancial counterparts that are just as important to some individuals. For example, the apartment in Bernardo's house that provides him with income is not a major factor in his valuation of homeownership. The elderly woman to whom he rents it is like part of the family, and Bernardo says, "I don't try to check the rent.… Whatever [they] pay me [is] enough. I don't even try to make any profit." He charges $350 per month, an amount he knows to be below market rate. Rosa says she wants to own property that she can leave as an inheritance for her children and grandchildren: "I always want my kids to have what I didn't have, and their kids to have what they didn't have." To Rosa, building financial equity in real estate is only part of the broader goal of creating a heritage of upward mobility for future generations.

Identity and Image

Some of the interviewees spoke of property ownership as integral to their self-identity and their image in the community. Langston, for example, said, "I wanted a home where I could … feel like I was a real person, that I owned a real property.… To us it was like a castle.… [You] just felt like you were part of society … if you own a nice, beautiful home." Essie proclaimed, "I want a piece of America." Teresita, who came to Syracuse from Puerto Rico, said, "The United States has given us a lot, and we want to give back what they provided us with when we arrived. It's a form of saying thank you to work and leave here a little of what they gave us.… Having a house is also a way of saying thank you."

Vanessa, on the other hand, equates homeownership with a loss of youth. She explained, "I don't want to settle down. I think that's the big thing right there.… And that's the last step. You're an old maid now. You got a house you gotta take care of." Walt said that until recently he had no interest in undertaking the responsibilities of homeownership, but now that he is reaching middle age, he thinks "it's time to make more of a commitment" to his living arrangements.

Some individuals encountered racial discrimination while renting and regard homeownership as a means to rid themselves of such humiliations. Esther said: "I would look through the ads in the newspaper, and I would ask them about their place and how much they want, and the next thing, before I would hang up, I says, 'Do you rent to black people?' And [the owner] would say, 'Oh, its nothing to do with you,' she says, 'but the neighbors.' I says, 'Well, I'm not going to be living with the neighbors.'"

A quarter of the respondents mentioned the desire to provide a better environment for their children as a motivation for buying a house. One African-American homeowner, for example, said that his four children could play noisily without disturbing others. Teresita worries about raising her little girls in a public housing complex, and she will not let them play outdoors. Having a safe place in which they can grow up is her primary concern in seeking homeownership.

Independence

A family's desire to maintain its autonomy and free itself from controlling landlords is also a powerful motivator for some homebuyers. Esther's landlord decided to sell the three-family house in which she was renting an apartment, but he did not put up a for-sale sign or tell the tenants. One day when Esther had stayed home from work and was sleeping, the owner brought some prospective buyers to see the property. Because Esther had fixed up her apartment nicely, he brought them in to see it, and they entered without knocking. Esther said, "To eliminate that, you have to find a place where you have your own keys."

Bernardo pointed out that Puerto Ricans usually come from large families and are very gregarious. This characteristic may be misconstrued by some landlords, who mistake normal family visits for drug-selling operations, an activity that also entails many people coming to a house. Bernardo said that many landlords do not want their tenants to have too many visitors and monitor the number of people at an apartment. If a Hispanic tenant has weekend guests or family members stay for a week or two, the landlord starts to complain.

One African-American homeowner characterized a house as a place where family members have the privacy to argue among themselves without the neighbors hearing everything. Several respondents described the ordeal of having to move frequently because landlords raised the rent, the building was condemned, or urban renewal displaced entire blocks. Both African-Americans and Hispanics who live or once lived in public housing complain about the lack of privacy, the noise, and the crowding. An African-American man who lives in a large apartment complex lamented that he has no control over who lives next door, or even over the timing of exterminators' visits to his apartment.

Several homeowners and renters spoke of the advantages of remodeling a house to suit their own tastes, having a yard in which to plant flowers, and enjoying increased living space. An African-American woman who is renting a single-family house and hopes to buy it likes having a private yard in which to entertain guests. For Langston, who grew up in a family of eight living in a two-bedroom apartment, owning a home with adequate room was very important. He recalls:

> We were able to convert the bedroom into bunk beds, so we were able to get four or five … boys in that one room. The living room was converted into daybeds for the two [girls], and then Mom and Dad had their room. So we were able to endure it and to survive that way, for almost 26 years.

Experiences with unresponsive landlords who fail to repair apartments properly induce some people to opt for homeownership. One African-American renter had trouble getting his apartment manager to respond to his complaints, which included such serious malfunctions as leaky plumbing and frequent power failures during the winter. He wants to buy a house so he can hire someone to take care of problems when they arise. Vanessa has adopted a different strategy: train the landlord. When he ignores her calls to fix legitimate problems, Vanessa asks her brother-in-law, a contractor, to make the repairs and then submits the bill to the landlord after deducting that amount from the rent. “He’s starting to get the hang of it,” she reports; the landlord now responds to her requests for maintenance.

Preparing To Buy a House

When an individual or household has reached a decision to undertake homeownership, the next step is to define the kind of home they will buy and decide how they will conduct the search and financing process. Joan wanted to buy at least a two-family house so that she could earn extra income from rentals. She did not place limits on her strategies for achieving homeownership: “Every time somebody told me about a new [housing program], I would go down on my lunch break … and I’d sign up for it.”

Narrowing the Choices

Almost one-half of the respondents expressed a preference for single-family houses. One African-American woman said that she would consider buying a two-unit residence only if she could persuade a relative to live in the other apartment. In addition to her reluctance to rent to strangers, her decision was based on the additional repairs that would be needed and on the lack of privacy—two-family houses usually have common access to some parts of the building. Several other participants also mentioned the lack of privacy that results from renting out part of one’s home. Toni noted, “It’s just such a different environment when you have your own privacy. If I lived in a … two- or three-family house and rented the rest of it out, I’d have to deal with those tenants’ problems on a daily basis.”

One-fifth of the study participants have bought—or intend to buy—multifamily houses so that the rental income can help pay their mortgages. Teresita recognized the need to choose tenants carefully; she knows from experience that fellow Hispanics tend to move often. Teresita and Rodolfo would prefer to rent to relatives, but since they have none in Syracuse they may look to friends or church members as potential tenants. “Christians are good,” Teresita comments. Rosa cited the difficulty of finding good tenants: “You never know who you’re gonna get to be your tenants. Some of them mess your house up or don’t pay your rent, and then you’re stuck with all them bills. I’d just rather, if I’m going to do anything, to do it on my own.” Even having relatives as tenants can be problematic, as Rhonda pointed out. “If you move family in, you never know. Sometimes living with family can be difficult because they expect more from you than an average tenant would.”

A large portion of the houses in the Syracuse market have two stories; some of the respondents preferred homes that have a single level. Two of the households interviewed have members who are physically disabled. Another woman, an African-American who bought her home late in life, also wanted to avoid climbing stairs. Such homebuyers may find their choices constrained by the available housing stock.

While some of the interviewees voiced a preference for new houses, most of the renter households said that they are not seeking new homes. They are concerned that contemporary construction methods and materials are not as solid as those found in older houses. One of the African-American women likes older houses. She is particularly pleased with HUD’s HOPE III program, because it has allowed her to buy an old home that has been completely rehabilitated. Vanessa does not expect to buy a home at all, partly because her ideal seems unattainable. Her dream would be to build a new suburban home of her own modern architectural design and to employ a staff to take care of maintenance and landscaping.

A few renter households expressed a preference for living in the suburbs. Although Walt would like to live in a different neighborhood from the one in which he has always rented, he wants to stay in the city. Having been reared in New York, he said that "living too far away from busy streets and so forth is still kind of—for lack of a better word—threatening to me. I like being where there's people and activity, rather than lots of trees and lots of space and nobody around." Teresita and Rodolfo initially planned to buy a home on the Westside, the neighborhood in which they have always rented and that is convenient to their jobs and friends. However, because the area has deteriorated, the couple fears that a house there could lose resale value.

Selecting a Strategy

Information from the extended interviews indicates that an individual's perception of the kinds of financing available strongly influences the method used to search for a house. Toni had failed in one attempt to buy a home because of credit damage left by her ex-husband. Instead of pursuing homeownership through conventional means, she has worked out an arrangement with a friend who bought a single-family house and is renting it to Toni and her children with Section 8[3] subsidies. When she finishes college, Toni intends to buy the home with seller financing. Another African-American household was turned down by more than one nonprofit housing agency because of insufficient income. Since the family has little in the way of savings, they have directed their home search primarily through alternative means, such as the HUD list of foreclosed properties.

Until recently, Walt was unaware that his income and credit history qualified him for a $60,000 mortgage. When he began thinking about homeownership, Walt considered trying to achieve it through a rent-to-buy arrangement. He also would assume a mortgage if the opportunity arose. Rhonda, on the other hand, said that she plans to go to a bank for conventional financing when she buys a house. Her job has familiarized her with the

Table 1

Sources of Housing Availability Information Resulting in Home Purchase for 103 Individuals Interviewed by Telephone

Word of mouth*	31
Seller	18
Friend	17
Relative	12
Landlord	6
Attorney	4
Realtor	27
HUD, city, or community development program	17
Sign on house	11
By seller	6
By Realtor	5
Printed media	8
By seller	3
By Realtor	5
Property in neighborhood	5
Unknown	4

* Some word-of-mouth sources qualified in more than one relationship category.

lending community and its underwriting requirements, and she knows an African-American loan officer at one of the banks.

The Search Phase

In addition to enrolling in housing programs with nonprofit agencies, Joan scouted out tax-delinquent vacant houses and checked with Realtors. She also applied repeatedly, over a period of 8 years, to the homestead lottery formerly used by the city to select beneficiaries of its homestead program, which allocated vacant houses for the nominal cost of $1. Finally Joan's name was picked in the lottery, and she was allowed to indicate three preferences among the houses available. Although she received only her third choice, she told her son, "I don't care if they offer us a house in hell—we're going!" At that point her long search was over.

Successful Home Search

Once potential homeowners have made the decision to purchase a home and have decided how to go about it, they must begin the search for an available house that meets their requirements. To identify successful search mechanisms, we asked the 103 homeowners interviewed by telephone how they had learned that the house they bought was for sale (see table 1). The most common answer (31 responses) was that they heard about the house's availability through word of mouth, and the information frequently came from the seller. Twenty-seven interviewees cited a Realtor as their source, and 17 cited a government-sponsored program. Eleven homeowners responded to signs on the property and eight to print advertisements. In only five cases did the buyer find the property because of its proximity to the house where he or she was living.

The extended interviews revealed, however, that people commonly use a number of sources in their search. In addition to consulting Realtors, Martha studied homefinder magazines published by realty companies, and that is how she identified the home she bought. David began his search by reading newspaper advertisements. The first house he inquired about was handled by a Realtor who gave him advice and a list of available houses. The Realtor eventually told David about, and took him to see, the house he purchased. Marian was able to find her house very quickly through a Realtor who had advance information that it would be listed because the sellers were divorcing.

After working with a Realtor in a failed attempt to buy a particular house, Rosa was told by the Realtor that she had found a home Rosa might like. She was right. Rosa said her reaction was, "This look like me. I like this house." Five other homeowners located their homes by contacting the Realtors whose names were listed on for-sale signs on the houses. But despite being paid a real estate commission, the Realtors had little work to do, because the buyers negotiated directly with the sellers.

Some homeowners reported that they did not search for their home at all but were recruited. Although she had tried on several occasions to buy a house, Lily was looking for a place to rent when she went to the office of a realty company and paid a fee to have access to the rental listings. The information about one of the houses included a notation that the owner would consider a rent-to-buy arrangement. Bernardo was approached by a man from his hometown who had been trying unsuccessfully for more than a year to sell his house and return to Puerto Rico. He convinced Bernardo to buy the house by assuring him that he could derive income from the upstairs apartment and have space to do automotive work in the back.

An African-American couple who had a friendly professional relationship with a woman who worked for a housing agency was persuaded by her to buy a home built by the agency. Sonya, who lives in public housing, received regular mailings from the city and a nonprofit agency about homeownership opportunities with an initial investment of only $500. She ignored them until she received one that included photos of three houses available through HUD's HOPE III program. She decided to find out whether she would qualify for the program. The city employee administering HOPE III said that she would, and Sonya attended a homebuyer class given by the nonprofit agency that rehabilitates the houses. The agency took her on a tour of the available homes, and she selected the one she liked.

Unsuccessful Home Search

Many paths in the maze of a home search reach dead ends. Three of our African-American respondents found houses they liked, but the prices were too high. Some prospective homebuyers have missed out on houses because other parties bought them first. Some interviewees cited location as an obstacle to finding a suitable home to purchase. One African-American renter wished to move to a more rural setting, even though her job requires that she live in the city. Teresita, Reginald, and Bernardo all had concerns about neighborhood conditions. Bernardo was renting a house whose owner offered to sell it to him, but he was concerned that neighborhood decline might hamper his ability to resell the property when he retires to Puerto Rico.

Occasionally home sales were unsuccessful because relatives could not agree about whether to make the purchase. Lily's grandfather offered to build a house for her when she was first married, but her husband was not interested. Another African-American woman considered buying the two-family house that she was renting but could not persuade her sister to move to Syracuse and rent the other apartment. Some interviewees cited a lack of responsiveness by other parties. Martha, Toni, Reginald, and Teresita all said that they could not get an adequate response when they inquired about community development programs. One African-American renter complained that he had not been able to find a Realtor to help him purchase a house from the HUD foreclosure list. Lily suspected that some sellers did not want to do business with her because she is African-American and noted that they did not return her telephone calls.

Several respondents described situations during the past decade in which they had been actively discouraged from proceeding with their housing search. The first Realtor whom Esther consulted was a white woman who seemed "not to have interest in me. I guess she thought I was looking for a home for nothing.… That was her attitude." The Realtor discouraged Esther to such a degree that she suspended her home search temporarily. Another African-American woman recounted that a Realtor showed her and her husband "more than 15 homes" in a predominantly African-American neighborhood, even though they repeatedly told him they wanted to buy a house in a different area that is mostly white. The Realtor claimed that no homes were for sale in their price range in the neighborhood they preferred. Only after the couple presented the Realtor with a list of affordable homes that had recently been sold in the white neighborhood did he show them houses there. Although Martha had been preapproved for a mortgage of $45,000, a loan officer told her that nothing was available in her price range—even though many homes were selling for less.

The Purchase and Financing Phase

Before Joan bought her house through the city's homestead program, she encountered a number of setbacks in purchase and financing. She once made an offer on a home that

Table 2

Source of Home Purchase Financing for 103 Individuals Interviewed by Telephone

Financing Source	Secondary	Primary
Total number of mortgages	25	107*
Bank or savings and loan		60
Mortgage company		11
Credit union	2	
Finance company		1
Seller*		
Mortgage	1	8
Rent-to-own and land contract	3	3
Assumable note (all FHA)		6
Community development program	13	1
Relative*		
Direct financing from relative	2	2
Lender loan in relative's name	5	
Miscellaneous*		
Gift/grant	2	1
Personal loan from another lender		1
No financing required		
Cash from savings		5
Inherited home		1
Unknown	5	

* Some qualify in more than one category.

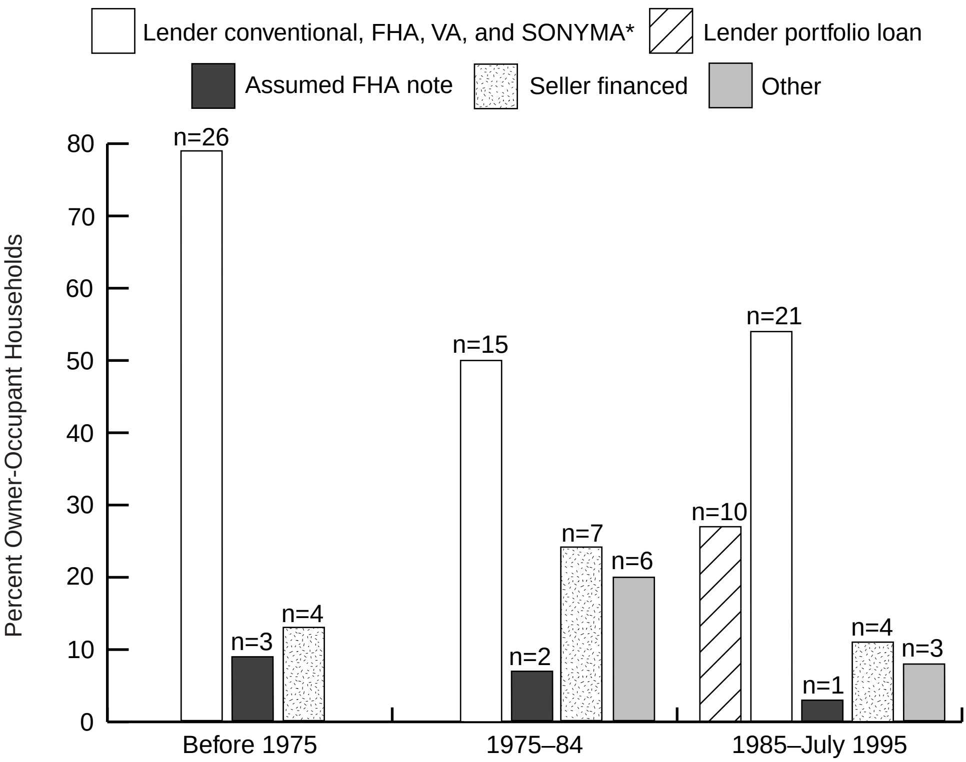
was for sale privately. The property was supposed to include a driveway and a large backyard, but Joan discovered that the survey showed neither, and she backed out of the deal. On another occasion she attempted to buy a house whose owner owed back taxes and was delinquent on a mortgage held by the Department of Veterans' Affairs (VA). Joan negotiated with the VA for a reduction on the mortgage. However, the city would not forgive any back taxes to facilitate the sale, and Joan could not obtain a loan sufficient to cover the entire amount owed. Later she went to a nonprofit housing agency about a building that had been used as a rooming house, hoping to convert it to a four-family residence. But agency officials wanted to reduce the number of units even further, and the negotiations dragged on so long that the projected rehabilitation costs rose until the house was again beyond her reach.

Problems Related to Purchase

Once a suitable house has been found and a purchase offer has been successfully negotiated, problems related to the property itself may arise. They include anomalies in the survey, unclear title to the property, an appraisal lower than the negotiated purchase price, and difficulty in securing homeowner insurance. These are commonly perceived as financing problems because they are associated with lender requirements. However, with the possible exception of the appraisal, they are elements of any prudent property purchase.

Figure 3

Source of Primary Financing for 103 Homes Bought by Individuals Interviewed by Telephone During Each of Three Periods



* State of New York Mortgage Agency.

Only a few of these problems were noted by our respondents. Prospective purchases fell through for two African-American homebuyers when the sellers were unable to get clear title to the property. Rosa, for example, had applied for a mortgage before finding out that "they couldn't sell the house 'cause Medicaid owned it, or something."

The most common problem mentioned by the respondents was difficulty in obtaining homeowner insurance. Martha had to call four or five insurance companies before securing insurance for the house she wanted to buy. Another African-American woman mentioned rising taxes and the difficulties with insurance as barriers to homeownership. An African-American man said that he endured a significant delay in closing on his fully rehabilitated home because he was unable to insure it. Langston found it hard to obtain homeowner insurance, both because of the area and because he is African-American. He believes that discrimination in insurance pricing still exists.

Successful Home Financing

The largest single source of funds used in the purchase of a home is known as the primary source of financing. Any other source of funds—of which there may be several—is considered to be secondary financing. In a cookie-cutter home purchase, the primary financing is the mortgage received from the lender, and the secondary source is the downpayment. For a non-cookie-cutter transaction, there may be many sources of financing. In some cases the primary source of financing may not even have the priority (or first-place) lien against the property. In other instances, such as some community development mortgages, there may be no requirement for repayment by the purchaser.

Banks, S&Ls, and mortgage companies. Roughly three quarters of the telephone interviewees who volunteered information on the source and type of financing used to purchase their home received a mortgage originated by a bank, savings and loan (S&L), or mortgage company as primary financing (see table 2). Since several loans were assumable FHA mortgages provided by the seller, about two-thirds of the homebuyers were required to go through the entire application process, while the remainder were able to circumvent part of it.

Reliance on lenders for primary financing changed over time (see figure 3). For homes purchased prior to 1975, almost 80 percent of the borrowers relied on lenders for primary financing, while during the decade 1975–84, only one-half relied on lenders. This decline in lender financing was offset by seller and other types of financing, such as loans by relatives and cash purchases. A woman with experience as both real estate broker and mortgage banker explained that this phenomenon was the result of high interest rates in those years:

> The banks just quit lending. You couldn't sell a house unless someone else financed it. It just cost too much.… Until 1979, New York State usury laws limited the interest a bank could charge [to] $8^1/_2$ percent, and it was costing them more to borrow it from the Fed [Federal Reserve Banks]. New York State banks couldn't even enter the secondary market until all this began to change in 1979.

As interest rates declined after 1984, there was a return to strong reliance on lenders for primary financing. Once again, between 1985 and 1995, nearly 80 percent of the homebuyers we interviewed used banks, S&Ls, or mortgage companies for their primary financing. However, this rebound did not occur because the buyers increased their use of conventional, FHA, VA, or State of New York Mortgage Agency (SONYMA) loans, which accounted for slightly more than one-half of the primary financing. Instead, the area lenders' portfolio loans, targeted to low- and moderate-income borrowers, accounted for about 25 percent of primary financing.

The financing trend identified in our relatively small sample has been confirmed by two African-American loan officers from area banks that are active in lending to minorities and low- and moderate-income borrowers. One loan officer said that well over 60 percent of the mortgages she originates are portfolio loans, while Martin, the other banker, estimated that about 60 percent of the loans made to African-Americans are held in portfolio. He asserted that there is no reason why an individual making $15,000 cannot get "a pretty good house." It is very difficult, however, for a person with that income to save the significant amounts needed for the downpayment and closing costs. For this reason, the $500-down loans that his bank offers are very important. "Most clients have the ability to pay but not save."

Downpayments and closing costs. When participants in the telephone interviews were asked how they financed the downpayment and closing costs, 94 of the respondents said they used general savings. In 85 cases, general savings were the only source of the personal contribution that was made. Another six combined savings with the proceeds from the sale of their previous home. Private sellers provided financing with reduced closing costs and/or downpayments in 14 cases. Three of these buyers were not required to cover any out-of-pocket expense. Four others also had no out-of-pocket expenses, because two of them secured second loans, another used the proceeds from a lawsuit, and one inherited his home. Only one individual received a gift, although some attorneys (and, in one case, a Realtor) provided their services at a reduced rate or free of charge (discussed in greater detail below).

The most common form of downpayment assistance comes from the lender, as 26 individuals purchased their homes using FHA, VA, or SONYMA loans with low downpayment requirements. As previously mentioned, several local lenders have experimented over the past 10 years with portfolio mortgages such as those used by 11 of our respondents. Community development funds reduced mortgages by $10,000 to $25,000 for 12 homeowners, using a second mortgage that does not require repayment. Two others received community development grants that did not need to be repaid. Purchases using community development funds commonly have lower closing costs as well.

Several participants in the extended interviews said that they had experienced no problems with credit in obtaining a loan, whether for mortgage financing or for other purposes. Connie and Oscar expressed surprise that their mortgage application was accepted, because they assumed that they “had too many bills.” Two loan officers who also act as cultural brokers make a point of working with their clients to present acceptable credit information to bank underwriters.

Alternative financing. Nine of the homeowners who participated in extended interviews obtained their houses through conventional sources, while five used alternative financing. John, for example, assumed an FHA mortgage from the seller. Two other homeowners received financing from a combination of a bank and another source. Langston’s mortgage application was rejected by two Syracuse lenders, but the seller took a liking to him. Because she could see that he really wanted the house, she enlisted the Realtor to look for other financing. He found an S&L in an adjoining county that was willing to make a mortgage commitment for about one-half of the sale price, and the seller offered to hold a second mortgage for the balance. Langston made monthly payments to her, from which she paid the lender. As noted earlier, Joan finally bought a house through the city’s homestead program for the nominal price of $1. Rehabilitation costs came to about $54,000, one-half of which was financed through a bank loan and the balance by the city’s community development division.

One of the nonconventional financing mechanisms used by some of the interviewees was an agreement to rent the property with an option to buy it. The man who sold Lily her home had once lived there himself. He asked for a deposit of $280, equivalent to two months’ rent, and Lily agreed to pay $140 per month for 3½ years. It was agreed that if the monthly payments were late, the house could be forfeited. Lily and her husband were required to make repairs while living in the house (although that was not enforced) but were afraid to invest very much money in the house until they could be sure they would actually own it. Lily said, “We were scared. We didn’t know if [the seller] was really gonna go through all this that he said he was going to do or not. But we just got the right person, I guess.” The seller paid the taxes and insurance on the house while Lily and her husband were renting to buy, and at the end of the 3½-year period the sale was closed. The couple paid a total of $6,180 for the house.

Essie and her late husband bought a house with seller financing in 1992. She says that she prefers to deal directly with a property owner, because bank financing is an unnecessary step that involves such impediments as late charges. When Essie was negotiating the agreement, she owned another house that she wanted to get rid of. Her son had been living there, but she had trouble collecting rent from him, and the house was in danger of going to foreclosure. Essie was able to persuade the seller of her new home to accept that house as a downpayment. In addition to one African-American man who inherited his home and needed no financing, six of the telephone respondents received direct or indirect financial assistance from relatives. In only one case, that of Joan's son (mentioned earlier), did a relative provide a direct loan from her own resources to the purchaser. Another African-American woman bought a house from a brother who could no longer maintain the payments. She assumed his FHA loan in exchange for covering the assumption costs and all of the payments in arrears.

Because one African-American couple lacked a good credit rating, their daughter, who was living in the household at the time, applied for an FHA loan from a mortgage company. Another young African-American woman financed her home in her father's name, as her defaulted student loans prevented her from qualifying for the mortgage. The woman's father was not going to live in the house, so she was required to make a $10,000 downpayment, which she covered with the settlement from a lawsuit.

Natalie's sister purchased a home in 1992 but turned it over to Natalie (an African-American interviewed by telephone) and her family in 1993. When the transfer between the sisters took place in 1994, the title and mortgage were left in the sister's name until the mortgage is paid off. The reason for this arrangement is that the sisters believe, erroneously, that a community development second mortgage might have to be paid off in the event of a deed transfer. Moreover, Natalie might not qualify for a bank loan. The transfer was based on an oral agreement without any help from outside agents. When another African-American woman bought her home, she could not qualify for a mortgage because of insufficient income. Her mother, who falsely claimed that she would live there, made application in her own name. The Realtor who found the property for them assisted in deceiving the lender.

Purchase and Financing Failures

In only one instance did a participant state that she failed to purchase a home because she rejected the financial terms offered. Lily entered into a rent-to-buy arrangement on a two-family house but backed out after a while because only $25 of the $225 monthly rent was applied toward the purchase.

More than half of our respondents revealed that they faced rejection by banks for mortgage or home-improvement loans because of their poor credit histories. Several African-American homeowners said that a bank gave inadequate credit as the reason for rejecting their loan applications, although they had always paid bills on time.

An African-American loan officer stated that credit is the most common problem preventing blacks from purchasing homes. She has prequalified "over a thousand individuals" and said that unpaid student loans and utility bills are the most prevalent causes of poor credit among African-Americans. When asked whether she regards credit history as a true indicator of default risk, she responded that it is usually a bank problem: "We have to get away from looking at things that happened in 1990 or 1991 and just going, 'Whoa, we can't make this loan.' We have to go deeper than that." She added, however, that often a credit problem can be cleared up if the applicant will contact the creditor and make arrangements to repay the debt.

A number of interviewees did not know why their mortgage application had been turned down or felt that the rejection was not reasonable. Joan said that one bank had lost the entire file on her loan application, and several other homeowners had a similar experience with the same lender. One African-American said a bank was willing to loan him funds with which to purchase a house but would not make a home-improvement loan. Two others were denied small home-improvement loans, even though they had on deposit in their savings accounts the amount of money they sought to borrow.

In some cases it is not clear whether the inability to borrow the desired amount was due to insufficient income, too high a debt, or a low appraisal. One African-American man was rejected by a local bank and by an S&L, with both maintaining that he did not have a long enough employment record (although he had worked for the same manufacturer for 6 or 7 years) and that his income was not high enough. When David's application for a 15-year mortgage was rejected, he was told that he had not been employed long enough, did not have sufficient credit history, and had made some late payments on his car loan. David subsequently obtained financing from a mortgage company.

Maintaining Homeownership

Once people have achieved homeownership, their ability to remain in the house may be thwarted by a lack of financing for home improvements or repairs, by insurance cancellations, or by difficulty in finding good tenants for a rental unit. If poor decisions are made during the purchase with regard to liens, title to the property, taxes, or insurance, homeowners might later face default. Sometimes the surrounding neighborhood is ravaged by the drug trade and/or neglect by absentee owners, leading to declining property values.

Although Joan's house was purchased through the city's homestead program for the nominal price of $1, she commented, "You pay a lot of money for a dollar house." She characterized the low-bid contractor chosen by the city to rehabilitate the formerly vacant home as "a lousy contractor and a thief." He absconded with the fine oak woodwork and did such poor renovations that Joan finally had him fired from the project and paid others to redo the work.

Renovations and Repairs

Some of the homeowners felt that they were taken advantage of when they had to hire workers for repairs and maintenance. Esther commented that, as an African-American woman, "sometimes you get a shipshod job." Essie once acquired a house from the city's homestead program, but the city took it back because she could not afford to bring it up to code within the specified time. As we have seen, Martha bought a home from a real estate broker who assured her that the building was in good condition. But she soon realized that he had charged an inflated price for a house that needed extensive repairs. Martha is fairly philosophical about it, saying, "Whatever goes 'round, comes around; he's going to get it someday.… People like us, we are helpless, but somebody's not going to take it."

Even buying a newly constructed home from a nonprofit housing agency does not ensure that it will be trouble-free. Connie and Oscar were allowed to live in their new house for several months before closing on the mortgage, and they discovered a number of construction problems. The agency would not take responsibility for correcting them until the couple's lawyer delayed the closing. An African-American household that used seller financing made the mistake of assuming responsibility for thousands of dollars' worth of back taxes on the property. This action prevented them from qualifying for the city's rehabilitation loan program, and the house needed extensive repairs. Although family members did as much patching as they could, leaks in the roof eventually made the rental apartment uninhabitable, further reducing the household's income.

Despite problems with financing, dishonest sellers and contractors, and unfamiliarity with maintenance requirements, many homeowners invest substantial amounts of money and time in improving their houses. Bernardo estimates that he has spent more than $25,000 in this way since buying his home. He notes also that he is able to keep maintenance costs low on the apartment in his house, because he charges below-market rent and thus can keep a good tenant who does not cause damage.

Mortgage Defaults

However, not all of the homeowners have been able to absorb these costs without endangering their ability to make mortgage payments. Although this topic was not part of the study, two of the individuals interviewed by telephone had previously come to SUN for default counseling. One of them, an African-American named Jamie, lost her job several years ago, and her unemployment income, combined with that from a rental apartment, was only slightly larger than her mortgage payment. When the apartment's heating system failed during the winter, Jamie lost her tenant and was forced to use her meager income to replace the furnace. She was unable to continue making payments on the mortgage. By the spring Jamie had re-rented the apartment and was able to resume mortgage payments, but the lender refused to accept anything less than the total amount in arrears. The bank referred the loan to its attorneys, who instituted foreclosure proceedings. Even though Jamie had enough money by that time to bring the account current, she could not afford the accumulated attorneys' fees.

The other African-American homeowner had to deal with a frozen pipe that burst, causing severe water damage to her home. Because her insurance would not cover it, she nearly lost the home to default while making repairs. This homeowner entered the FHA assignment program, which saved her house from foreclosure.

Two more telephone respondents consulted SUN when faced with mortgage delinquencies that resulted in threats of foreclosure. In both cases the homeowner had become disabled at work. Their workers' compensation, Social Security, and other disability insurance should have given them sufficient income to continue their mortgage payments. However, these insurance programs commonly delay payment during the initial years of a claim. In some instances, the delay in receiving benefits extends for more than a year. In both of these default cases, the disabled homeowner's house was saved only through intervention by independent third parties, financial help from relatives, and the lender's extreme patience.

Building or Rebuilding the Neighborhood

City houses almost never stand in isolation. They are part of neighborhoods, and homebuyers generally find that enjoyment of their property depends in part on its setting. In one case a pair of new homeowners found themselves somewhat in conflict over their differing valuations of the house and their responses to the neighborhood. Connie was reared in a house and revels in gardening, while having to cut grass is a new responsibility for Oscar. He grew up in urban public housing and commented, "I'm hooked on city life. I don't like this. I like lots of people, lots of sidewalk." More significantly, Oscar expressed dismay over the neighborhood in which their new house is located. He lamented, "I haven't been happy since I've been here.… This is the worst move I could've made.… It's like putting me in a jail. I can't go nowhere; you can't do nothing, and everybody resents you" (for living in a nice house). Most of the couple's neighbors are on welfare. There have been three drug-related murders within one-and-one-half blocks since Connie and Oscar bought the house, and they are so concerned about break-ins that they will not leave on vacation. Oscar said to his wife, "You think a home is a big deal, which I don't.… Peace of mind means more to me than owning a house."

Other Actors in the Home-Purchase Process

Cultural Brokers

As we have used it in this study, the term "cultural broker" refers to an individual who acts as a liaison between two worlds, translating the specialized language and explaining the cultural assumptions of one group to the other. For example, a Peruvian woman working as a loan officer for a bank may help other Hispanics comprehend its requirements for obtaining a home mortgage. She also may help bank underwriters understand Hispanic customs in regard to saving and pooling money for downpayments. Cultural brokers do not necessarily have to be members of either of the worlds between which they mediate.

In the arena of homebuying and finance, some persons act as cultural brokers in a paid capacity, going beyond the normal professional requirements of their job to supply mediation and interpretations that will help their clients. Many cultural brokers, however, perform their role without pay. Some of the homeowners we interviewed are themselves cultural brokers. Bernardo, for example, has lived in his neighborhood for more than 20 years. He speaks English fluently, knows where to refer people for services, and understands how to apply political pressure when necessary. Many newly arrived Puerto Ricans come to him for advice.

Other interviewees received coaching and information from cultural brokers when they were preparing to buy a house. Marian is a former community organizer for SUN who could call on her old coworkers as well as on a Realtor and a lawyer who are friends. An employee of the housing agency that sold one couple their home is also a friend who advised them on financing and on obtaining free legal help. Rosa described the homebuying process as scary but added that a friend coached her and explained everything to her. Rosa's brother inspected the house for structural soundness. She said that without that help, "I don't think I could've made it." Sonya, who was in the process of buying a home through HUD's HOPE III program, attested to the extraordinary help she received from a city employee. This African-American woman worked as a liaison with the housing agency that rehabilitated and sold the house. Sonya said:

> If I'd have realized that … [buying a house] was that easy, I'd have been did it!… Every step, they just took you straight through. If you had any questions—which, being a homebuyer for the first time, you got a thousand questions, and I must've bugged them so much—but they still answered my questions and told me it was no problem.

Realtors

One-half of the homeowners who participated in extended interviews worked with Realtors at some time during the home search or purchase phase. Several paid a real estate commission because the house was listed with an agency but, as it happened, those buyers found homes on their own. As we have seen, Lily paid a realty agency for access to listings of homes for rent, and from them she identified the house that she rented with an option to buy.

The interviewees reported both positive and negative experiences with Realtors. Langston commented that when he began his home search in the late 1960s most Realtors had their offices downtown, not in the 15th Ward where African-American families were concentrated. “We figured we were not in a position to talk to them about buying a home,” he said. Most of the Realtors Martha consulted were very helpful and spent a lot of time with her, although a few tried to steer her to certain parts of the city. She circumvented that by using homefinder magazines to locate potential houses. In two more recent examples, African-Americans recited detailed cases of blatant racial steering. In one instance, cited earlier, the couple forced the agent to sell them a home in the predominantly white neighborhood they preferred.

However, other homeowners, such as Joan and David, reported positive experiences with white Realtors as well as African-Americans. Rosa initially met the Realtor who found her home when a friend told her about a house listed with the woman’s firm. The purchase of that house fell through due to title problems, and Rosa forgot about the search for a while. But the Realtor persisted, prequalifying Rosa and calling her about another house. When Rosa decided to buy it, the Realtor gave her advice on where to apply for a mortgage.

One white real estate broker readily acknowledged that a number of white Realtors discriminate through racial steering. But, he said, the problem is more complex than simple discrimination. He cited the low cost of housing in the city, particularly in predominantly African-American neighborhoods: “The homes do not sell for enough to make a Realtor want to do a very good job.… They simply cannot make a living from the small commission that they make.” Some homebuyers did not use Realtors at all. Several bought houses from nonprofit agencies, and Essie negotiated directly with the seller. She has dealt with many Realtors in the past but says she would never use one again. “By the time you pay off the real estate [company] … you’ve lost money. Only thing you pay for with the real estate is the paperwork.”

Attorneys

A few homeowners received pro bono legal help for their house purchase closings. Students at the Housing Finance Law Clinic of the Syracuse University Law School were enlisted to handle the closing on Connie and Oscar’s new home. The couple described the students as conscientious and savvy. They negotiated with the nonprofit agency selling the house and ensured that the agency would make all necessary repairs. The law clinic usually handles the closings for homes sold through the HOPE III program, but during the summer, when the students were not there, another attorney was found to handle a pro bono closing. Two of the households hired lawyers to whom they were referred by an acquaintance or by the banker handling the loan.

Three households reported that they had received extra help from their lawyers. Bernardo went to a priest who is also a lawyer and who acts in an advocacy role for the Hispanic community. Marian knew her attorney before she purchased her house, and he even did the structural inspection for her. Lily said that when the rent-to-buy agreement was offered to her and her husband, they were told that they could have a lawyer look at it. Lily said, “I’m not spending no money for no lawyer,” and they signed the agreement without legal counsel. However, when they had paid the agreed-upon amount, they did hire an attorney for the closing. Langston did not use a lawyer when he bought a house in 1969:

> I didn’t have one. I couldn’t get one. So I just put all my faith and trust in [the seller] and her lawyer at the time—which today I wouldn’t do. I know better now … but then … it was like you just had to trust them. When you don’t have any money and you know that the door’s going to be closed in your face and has been closed through the years,… you just try to get in the best way you can with the little knowledge you can, and you’ll be appreciative that you got what you got.

Joan found her attorney because he is a cousin of one of her coworkers. The lawyer was very helpful to Joan during her long quest to buy a home, and some of his consultations were free.

Bankers

In addition to Realtors and lawyers, we expected the people we interviewed to mention bankers who had acted as cultural brokers for the African-American and/or Hispanic communities. To our surprise, only two individuals mentioned a banker. Rosa had been referred to the loan officer named Martin (mentioned earlier) by her Realtor. Martin helped Rosa with her successful mortgage application and referred her to the attorney who handled her purchase. Another African-American woman said that she was referred to the same bank and that she already knew Martin. We later interviewed him. When asked how his role compared with that of other mortgage loan officers in his bank, he replied that he specializes in lending to low- and moderate-income individuals and minorities. He feels he has a particular sensitivity for this role because he grew up in “the Bricks,” a local public housing development, living there until his mother purchased a home when he was 18. Martin said that he still has family and friends who live in public housing, where he is known as “a local boy who did O.K.” and has kept “a sense of where he came from.”

Another loan officer whom we interviewed, an African-American woman, also has a good reputation in the community. In defining her role, she gave an example of the way she handled an African-American client whose mortgage application had been turned down by her bank because of bad credit. “I couldn’t go to sleep that night, came in the next morning, and got a full history of the loan” (a car loan that another lender had reported to have six late payments). The loan officer reviewed each payment made on the account and found that the applicant had always paid on time, but the lender had made recording errors. With this proof of good credit, the mortgage applicant was approved and proceeded to close on a house.

Discrimination

Last year John went to a local bank hoping to get a better rate on a mortgage for a rental house he was buying. The bank rejected John’s application due to insufficient income, even though he and his wife have a combined income of about $60,000 and a line of credit sufficient to cover the mortgage amount. John commented during our interview, “If you were to go to the bank with a black face … I wish you would try it just once. They just won’t [give you a loan].”

Housing segregation was once widely practiced in Syracuse. Until the mid-1960s African-Americans were constrained within the old 15th Ward, because whites would rarely sell or rent to them outside that neighborhood. Commented Langston, “The real estate [companies] and the homeowners … didn’t want any blacks in the other areas.” When African-Americans began buying homes in the study’s target community in the mid-1960s, many white neighbors moved out. Several individuals who had purchased homes around that time told a story similar to Langston’s. When Langston bought his house in 1969, the seller would only show him the apartment that was unoccupied, because the other two units were rented to white tenants. He notes that it was common then for African-Americans to be prevented from inspecting the homes they wanted to buy if whites were living there. When Langston purchased the house, he assured the tenants that they could stay and continue to rent from him, but they moved out.

Both Hispanics and African-Americans reported instances of discrimination when renting. Esther remarked that when she went in person to check out an apartment and the landlords discovered her race, "they'd just seem to start shaking." If she was accompanied by a white friend, the landlords would sometimes ask which one wanted to rent the apartment, implying that it made a difference.

Bernardo has had unpleasant experiences at a bank in his neighborhood. Recently he accompanied an elderly Hispanic man who wanted to cash a lottery check there. The check was drawn on that bank and the man had an account there, but the teller still hesitated to cash it. Whenever Bernardo goes into this bank to cash a check drawn on his account, the tellers require him to show identification. He feels that the bank doesn't trust minorities: "They possibly believe that you've been stealing." Bernardo's experiences illustrate the intertwining of cultural misunderstandings and possible discrimination. A high-level bank administrator whom we consulted about the lottery check admitted that the bank should have cashed it, and the teller's failure to do so may have involved ethnic bias. But in regard to requiring proof of identification before cashing a personal check, the administrator said that it is a rule most Syracuse banks apply to all of their customers as a matter of security. To someone accustomed to the more personal business interactions in Puerto Rico, a routine banking practice in New York seems like bankers' mistrust of Hispanic clients.

At each stage of the homebuying process, some interviewees experienced subtle or overt racial discrimination. Martha and an African-American couple were steered by Realtors to predominantly black neighborhoods. Lily visited open houses, only to be told after touring them that they had already been sold. Esther and Martha were discouraged from the search process by a Realtor and a banker, respectively. Langston not only failed to obtain a mortgage from any local bank but had difficulty buying homeowner insurance—both of which he attributes to racial discrimination. A number of respondents said that their loan applications were turned down because of credit problems, even though they had a record of paying their bills on time. African-American women may be particularly vulnerable to fraud connected with home repairs, Esther suggested, and Joan, Martha, and Essie may have faced similar subtle discrimination.

Chris, a lender interviewed for the study, related a personal experience that had occurred before having been hired by a local bank. Chris had excellent credit and income qualifications but was subjected to a series of delays and obstacles during a loan application. Later, when employment as a mortgage loan officer with a local lender familiarized Chris with the mortgage-lending process, the racial bias underlying the previous experience became clear. But in spite of individual experiences such as these, across-the-board discrimination was not evident. Each account of racial steering, unhelpful loan officers, biased landlords or sellers, and unscrupulous contractors who prey on minorities was offset by stories in which no discrimination was perceived. For example, David's mortgage application was turned down by a bank, but he recognizes that the reasons for the rejection have to do with underwriting standards about length of employment, well-established credit history, and timeliness of payments on a car loan.

Conclusions and Recommendations

Our findings show that problems can arise at any point in the home-purchase process, even—perhaps most significantly—before the potential homebuyer begins to search for a house. In some cases this array of barriers has discouraged individuals from seeking homeownership, which may account in part for African-Americans' low rate of application for mortgage loans.

Barriers to Homeownership

There are certain barriers that occur or recur during various phases of the homebuying process. For example, concerns about the condition of an affordable house might prevent a prospective buyer from making a purchase offer during the search process, might surface later if a house receives a low appraisal because it needs to be rehabilitated, and/or might arise again if the homeowner is faced with unexpected and expensive repairs. For prospective homebuyers who are not fluent in English or familiar with the specialized terms used in real estate, language can create barriers at any or all phases.

During the preliminary phase of considering the advisability of homeownership, a barrier cited by several respondents was the lack of job stability in the Syracuse market. Though housing prices are generally low, households still hesitate to assume the financial burdens of homeownership if they fear losing their jobs. Many of the interviewees once regarded homeownership as unattainable, only to find later that they actually could buy a house. In some cases this perception resulted from a misunderstanding of the requirements for purchasing a home through conventional means. In other cases it was caused by ignorance of financing alternatives such as community development programs targeted to low-income homebuyers. It was suggested by interviews with renters that people who are convinced that their credit is not adequate to qualify them for a bank mortgage might narrow their focus to rent-to-own arrangements. Yet relatively few participating homeowners successfully bought houses in that way.

Many respondents did not understand what is required to establish credit or otherwise were confused about credit. They were confused about how debts should be paid and what kinds of information are contained in a credit report. Many persons, even those who had purchased homes, did not realize that there are more ways to establish credit than simply by repaying installment loans. Such misunderstandings act as barriers that unnecessarily keep some individuals from applying for financing. For others, they can lead to the kind of poor credit histories that may cause denial of mortgage applications.

Misunderstandings about debt ratios also affect this phase of homebuying. Some of the respondents considered short-term mortgages preferable to 30-year notes, but these are harder to obtain due to the higher debt ratios they entail. One African-American man assumed that the shorter the term, the more likely the lender would be to approve the loan. Other respondents, both African-American and Hispanic, did not understand that a standard 30-year mortgage usually can be paid off early without penalty. During our group discussion about the results of the study, the participants agreed that many African-Americans do not understand that expensive car payments can prevent them from buying their own home.

While many of the homeowners interviewed also own rental units, several of the renters expressed concern about being able to find good tenants if they were to purchase a two-family home. This trepidation is likely to lead to a decision to seek only a single-family house, thus limiting the pool of available choices. It also could affect homebuyers' future wealth, since they are choosing to forgo a readily available source of income from a rental unit.

Our findings indicate that savings, age, and relocation expectations do not pose major barriers to homeownership for African-Americans and Hispanics in Syracuse. For example, a large proportion of our respondents, both homeowners and renters, have savings accounts, and the vast majority of buyers used only general savings as their personal contribution to downpayment and closing costs. However, because it is very difficult for low- and

Table 3

Stereotypical and Nonstereotypical Aspects of Home Purchase

Phase	Stereotypical	Nonstereotypical
Search	Word of mouth from friend, relative, or acquaintance. Located in buyer's neighborhood. Realtor. Sign posted by seller or Realtor. Advertisement in newspaper placed by Realtor or seller. Advertisement in publication specializing in realty ads.	Cultural broker. Attorney who is not also a Realtor. Foreclosure or tax sale announcement. Estate sale announcement or program. Auction sale announcement or program. Community development announcement or program.
Property	Above-average or average condition at time of sale. Clear title at time of sale.	Significant rehabilitation or repair needed. Title not clear at time of purchase. Inherited property. Foreclosed property. Sold from an estate. Part of community development program.
Seller	Seller and buyer have no significant prior relationship.	Seller and buyer are related. Seller and buyer are friends. Seller and buyer are business partners. Seller is a community development agency. Seller is a government agency. Seller is a lender. Buyer is a tenant of the property.

continued

moderate-income individuals to save enough for a conventional mortgage, many of the purchasers used low-downpayment loans or had other forms of assistance. Advancing age does not appear to be a significant barrier to homeownership; many individuals in the study did not buy their first house until late middle age. Nor does the fact that the few Puerto Rican respondents are likely to return to the island in later years seem to preclude homeownership as a goal while they are living in Syracuse.

Inducements to Homeownership

Our findings point to several specific factors that encourage African-Americans and Hispanics to undertake the homebuying process or facilitate their passage through the various phases. One factor includes cultural and familial role models, such as the church and the home in which a person grows up. These role models may have helped the individuals appreciate homeownership and understand the responsibilities it entails. The absence of

Table 3 (continued)

Stereotypical and Nonstereotypical Aspects of Home Purchase

Phase	Stereotypical	Nonstereotypical
Involvement by professionals	Handled by professionals (real estate agent, attorney, and loan originator).	Handled by seller and/or buyer. Portion of professional role done by nonprofessional.
Financing source	Bank or savings and loan. Mortgage company. Credit union.	Seller. Other individual. Cash. Credit card or personal loan. Loan on another property.
Mortgage type	Conventional. FHA, VA, SONYMA or other. Loans held in portfolio, due to special terms.	Interest rate substantially below or above market rate. Balloon payment. Release of payment if buyer complies with other terms of note. Underwriting requirements targeted for special needs. Rent-to-own or land contract.
Downpayment	Five percent or more.	Less than 5 percent. All or part paid by gift, grant, or loan. Loan gives credit for “sweat equity.” Donation of services by lender, closing attorney, real estate agent, or others.

such early experience, however, did not prevent one-half of the homeowners who participated in the extended interviews from buying a house. Clearly the correlation between the early experience of living in one’s family’s own home and later homeownership is not as strong as expected. The importance of role models does suggest that, over the years, first-time-homebuyer programs may create a ripple effect by instilling in participants’ children an appreciation for homeownership and an understanding of how it is achieved. For those who grow up in rental housing, fellow church members or coworkers may serve as role models. Realtors, attorneys, employees of housing programs, and the occasional banker who doubles as a cultural broker also play an important role in guiding new homebuyers through the complex process.

As alternative forms of financing, such as rent-to-buy arrangements and assumable mortgages, become more difficult to find, the importance of community development programs and portfolio lending increases. Nonprofit housing agencies working with community development funds often offer the additional benefit of counseling and classes in homebuying. Finally, negative experiences with renting—crowded conditions, high rents, and landlords who are unduly controlling or neglect to make repairs—paradoxically provide some tenants with the impetus to seek homeownership.

The Cookie-Cutter Model

Because the housing finance market prefers standardized mortgage products, there is a related, standardized set of presumptions about the "normative" home purchase. Therefore it makes sense to examine the home purchases made by African-Americans and Hispanics in Syracuse to see how closely they fit the classic stereotype, or cookie-cutter model, mentioned at the beginning of this article. It is important not merely to determine whether the mortgage itself conforms or does not conform to the standard, but also to look at the entire transaction: home search, property condition, seller, financing source, mortgage type, and downpayment and closing costs (see table 3).

In its simplest form, the cookie-cutter transaction is one in which a person with sufficient income decides to buy a single-family home, saves enough for a downpayment, and finds the house through a Realtor or an advertisement. A Realtor helps to negotiate a market-rate price with the seller, and the prospective buyer goes to a local lender for a mortgage. The closing takes place about 60 days later. In reality, even the cookie-cutter transaction is much more complex at each step. For example, the house that is for sale could be identified through a variety of information sources, but the seller and buyer should have no significant prior relationship. Negotiations, legal affairs, and lending for the property sale would be handled by appropriate professionals. The financing source would be a bank, S&L, mortgage company, or credit union. The mortgage underwriting standards would fit those for conventional, FHA, VA, SONYMA, or other assisted loans, and the originating lender could readily sell the mortgage on the secondary market.

For the purposes of this study, any variations from the model, as outlined in table 3, are considered non-cookie-cutter transactions. Examples of such variations include situations in which a buyer learns about the property through a cultural broker; the attorney handling the closing is also a Realtor; or the property is sold in connection with a foreclosure, tax sale, estate sale, or auction. Other examples include financing provided by the seller or another private party through a cash transaction, credit card, personal loan, or loan on another property.

More than 60 percent of the households interviewed by telephone obtained their homes through non-cookie-cutter transactions. In many cases, their purchase experience matches the model in some ways (for example, house was in good condition at time of purchase) but differs in others (such as purchase of property at auction). Because the telephone interviews were not comprehensive, in all likelihood they underestimate the degree to which purchases by the sample of homeowners do not fit the stereotype. Likewise, in no case did a homeowner who participated in the extended interviews reveal a story that entirely fits the cookie-cutter model.

If this model were applied to a detailed study of another population, it might reveal that many home-purchase experiences do not conform to all aspects of the model. However, the extent of the barriers that were overcome and the variety of ways in which homeownership was achieved by Hispanic and African-American homeowners in Syracuse seems extraordinary. The methods employed by Syracusan African-Americans to obtain financing have also changed significantly over time, moving away from the cookie-cutter model. Changes in the way they secured financing between 1975 and 1985 might be due to the unusually high interest rates that prevailed during part of that decade. Another possible explanation is the abandonment of inner-city neighborhoods by lenders, who withdrew to suburban branches and were less accessible to in-town customers. In addition, Syracuse's once readily available, high-paying jobs grew scarcer, making the accumulation of savings more difficult and purchasing less affordable.

It is possible that all of these mechanisms were operating together to make bank financing as scarce as it was from 1975 to 1985. The rebound since 1985 can be traced partly to lower interest rates and to bankers' recognition that the African-American and Hispanic communities in inner-city neighborhoods are markets worth serving. During the late 1980s and early 1990s, banks modified underwriting criteria, hired a few African-American loan officers, and may have curtailed overtly discriminatory behavior on the part of some bank employees. The bank officers, cultural brokers, and housing professionals interviewed for this study agreed unanimously that low-downpayment portfolio loans have become an important lending tool for the African-American homeowner.

Racial Discrimination and Cultural Misunderstandings

It is often difficult to distinguish between discrimination and cultural misunderstandings. For example, during the course of this research several respondents related stories regarding lost or misplaced loan applications, all but one of them involving the same lender. Although few respondents cited the incidents as evidence of racial discrimination, we began to believe that the lender was biased. But a conversation with a white man who has had considerable experience with real estate investment eliminated our suspicions. He began to complain about the same lender. "Those people always lose applications," he said, mentioning a number of cases in which files had been lost for white applicants and white, middle-class neighborhoods. When we mentioned our tentative judgment that the lender was guilty of racial discrimination, the man replied, "Those guys aren't discriminating—they're just sloppy."

Hard evidence of discrimination in lending and in the home-purchase process can be difficult to obtain and usually requires paired testing (Munnell et al., 1992; Farley, 1995). Despite the difficulty of distinguishing discrimination from other factors, we believe that racial bias unquestionably affects the behavior of some actors in the home-purchase process. Although only a few interviewees cited specific instances of discrimination, there were examples for every phase of the home search and purchase process. This conclusion is further supported by a recently released fair housing study conducted for the city of Syracuse (Fair Housing Council of Central New York, 1996). A paired-test study of discrimination found that Realtors frequently provided fewer services to African-American applicants than to whites. There were also incidents of racial steering, in which African-Americans were encouraged to buy in predominantly black neighborhoods while whites were steered to mostly white areas.

Barriers and problems also occur because of cultural misunderstandings. Attorneys, Realtors, property appraisers, lenders, and insurance agents who live in middle-class suburbs may have little understanding of the day-to-day credit practices, family cooperation patterns, work ethic, and homeownership values of inner-city Hispanics and African-Americans. Those who do not live in inner-city neighborhoods often question why anyone would want to buy a house there, and may regard loans made in those neighborhoods as inherently risky. One African-American homeowner we interviewed by telephone made a special trip to our office to discuss her views further. She said that the problems are no longer "the old racism" but a bias from those "who do not understand us." In an insight that this research fully supports, she added that the lack of understanding affects everyone who lives in an inner-city neighborhood.

Recommendations

Expand the purchase of portfolio loans by the secondary market. The Syracuse lending community has a 10-year history of experiments with inner-city lending. Conventional underwriting criteria for loans targeted to these areas have been altered in numerous ways in an effort to cope with local conditions. There is an inherent risk that such loans may have a higher rate of default than is acceptable to the secondary market, and for that reason they are held in portfolio. If our sample of homeowners is representative, portfolio loans have become an important source of financing for the African-American community. However, there is a limit to the amount that any one bank can commit to this type of lending (Follain and Zorn, 1990; Miles, 1983). Therefore, consideration should be given to purchase by the secondary market after an individual loan has been seasoned or after a particular category of loan has reasonably established its inherent default rate for the originating lender.

Design smaller, more flexible homes and alter HUD's rehabilitation requirements. Although affordability is not as great an issue in Syracuse as in many other locales, homes that are made more affordable are more accessible to low- and moderate-income households of all races. For this reason, we recommend that community development designs for new homes be smaller but allow for later additions as the homeowner's needs change and equity on the property has increased. For similar affordability reasons, we believe that HUD's rehabilitation requirements should be reconsidered, as suggested in *The National Homeownership Strategy: Partners in the American Dream* (U.S. Department of Housing and Urban Development, 1995).

Facilitate purchase of two-family homes. Since much of the housing in Syracuse consists of two-family homes, supporting their purchase by owner-occupants could be beneficial to the individual and to the community. Such assistance might take the form of allowing more rental income to be counted toward income qualifications or establishing a separate escrow account (described below).

Encourage the hiring and institutional support of minority loan officers. It is probably no accident that the two loan officers cited by our African-American respondents as particularly helpful are themselves black. However, these individuals are also supported by the corporate structure of their respective banks, because they are expected to act as advocates for African-Americans. Encouraging similar hiring and support for African-Americans and Hispanics by other lenders might significantly increase accessibility to bank mortgage financing by currently underserved populations.

Provide for repair escrow accounts and disability insurance on mortgages. Numerous studies cite concern about the increased probability of default by low- and moderate-income homeowners (Quercia and Stegman, 1992). This risk may be directly related to a household's ability to absorb unexpected expenses or reduced income (Van Order and Schnare, 1994). We have two suggestions regarding this problem. First, if insurance were available to cover mortgage payments in the event a person became disabled, defaults on loans would undoubtedly be reduced. Lenders could consider providing, or possibly requiring, such insurance. Second, the establishment of a separate escrow account for repairs should reduce the probability that unexpected repairs will not be made or will create financial hardship for the owner. Such an account could be funded by a portion of the monthly mortgage payment.

Educate consumers about credit, debt management, and home purchase. During a final meeting with the people who participated in our study, they were asked what strategies they would suggest for removing barriers to minority homeownership. Unanimously, they recommended that mechanisms be found to educate African-Americans (and presumably Hispanics as well) about credit, debt, and home purchase. One suggestion was that lenders who target advertising to the black community incorporate messages that address common misconceptions. For example, one woman pointed out that buying a new car and a house at the same time are incompatible. Installment payments on the car loan may well demonstrate good credit performance, but the debt load is likely to result in rejection of a mortgage application.

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Notes

1. For information on HMDA data, see page 89.

2. Black's *Law Dictionary* defines an *arm's length transaction* as one that is "negotiated by unrelated parties, each acting in his or her own self-interest; the basis for a fair market value determination."

3. The Section 8 Rental Voucher program helps very-low-income families find adequate rental housing by making assistance payments to private owners who lease their rental units to families. The program, administered for HUD by local public housing agencies, has rent limits, but the assistance payment on behalf of the family is fixed. Voucher holders find their own housing and may pay more or less than the payment standard for the area. When selecting applicants for assistance, public housing agencies must give preference to families meeting certain criteria (HUD, 1993).

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