Summary of the HUD Research Series Examining Barriers to Hispanic Homeownership and Efforts to Address These Barriers

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

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Foreword

President Bush has placed special emphasis on extending the *American Dream* of homeownership to low-income and minority households with his goal and efforts to bring about 5.5 million new minority homeowners by the year 2010. The intent is to reduce the substantial income and racial gaps in homeownership that currently exist. As of the first quarter of 2006, 75.5 percent of non-Hispanic whites owned their own homes, compared with only 51.0 percent of minorities – a homeownership gap of 24.5 percentage points. President Bush wants to extend the traditional benefits of homeownership to all Americans.

HUD's Office of Policy Development and Research commissioned a series of studies to examine the homeownership barriers faced by Hispanics, the nation's fastest growing minority group. This report, *Summary of HUD Research Series Examining Barriers to Hispanic Homeownership and Efforts to Address These* Barriers, summarizes the main findings from the following seven reports sponsored by this research:

1. *Improving Homeownership Opportunities for Hispanic Families: A Review of the Literature*
2. *Efforts to Improve Homeownership Opportunities for Hispanics: Case Studies of Three Market Areas*
3. *Review of Selected Underwriting Guidelines to Identify Potential Barriers to Hispanic Homeownership*
4. *Housing Tenure, Expenditure, and Satisfaction Across Hispanic, African-American, and White Households: Evidence from the American Housing Survey*
5. *Mortgage Pricing Differentials Across Hispanic, Black and White Households: Evidence from the American Housing Survey*
6. *Language, Agglomeration, and Hispanic Homeownership*
7. *Homeownership Rate Differences Between Hispanics and Non-Hispanic Whites: Regional Variation at the County Level*

This summary report, along with the seven individual reports, provide valuable information on the extent of homeownership gaps between Hispanics and non-Hispanic whites, the causes of these gaps, and what is known about the scale and effectiveness of programs designed to help Hispanics become homeowners. This report should serve as an important reference for anyone interested in understanding the barriers that Hispanics face in our housing and mortgage markets and the efforts of both government and private entities to reduce these barriers.

Hopefully, this study's information will support the development of additional programs and policies that promote homeownership among Hispanics and other minority groups.

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Introduction

Aided by a favorable economic climate, concerted efforts by the public and private sectors have succeeded in elevating homeownership rates to unprecedented levels in the U.S. According to 2005 Current Population Survey data, virtually every segment of the population has higher homeownership rates than a decade ago—although the gains have been largest among Hispanics. Between 1993 and the fourth quarter of 2005, ownership rates rose by 5.8 percentage points among non-Hispanic whites, 6.6 percentage points among blacks, and 10.6 percentage points among Hispanics. Yet despite these gains, sizable gaps in homeownership rates persist among Hispanics compared to non-Hispanic whites. As of the fourth quarter of 2005, 76 percent of non-Hispanic whites were homeowners, compared to 50 percent of Hispanics—a homeownership gap of 26 percentage points. Thus, despite the impressive achievements over the last decade, there is still an important need to identify the factors that shape Hispanic homeownership rates and understand how the public and private sectors can best bridge this gap.

This report summarizes the findings from a research series commissioned by the U.S. Department of Housing and Urban Development to examine the extent of homeownership gaps between Hispanics and non-Hispanic whites, the causes of these gaps, and what is known about the scale and effectiveness of approaches designed to help Hispanics to become homeowners. The overall goal of this series is to better inform policy makers and practitioners in their efforts to improve homeownership opportunities for Hispanic families.

There are seven individual studies in the series. The series begins with a comprehensive literature review that synthesizes existing research about trends in Hispanic homeownership rates and gaps, the factors that contribute to this gap, and efforts to increase Hispanic homeownership opportunities (Cortes et al., 2006a). One of the key conclusions from the literature review is that Hispanics are a diverse community, and efforts to increase homeownership opportunities among Hispanics must account for their diversity. Hispanics come from abroad range of ethnic and socio-economic backgrounds; some have lived in the U.S. for generations, while others have recently arrived; and they live in both high cost urban areas of the West and Northeast and low cost areas in the South.

To better understand how this diversity affects the size and nature of Hispanic homeownership rates and gaps, as well as efforts to improve Hispanic homeownership opportunities, the next report in the series presents case studies of three market areas (Cortes et al., 2006b). The three markets – Orlando, San Antonio, and Washington, DC – were selected to reflect the ethnic diversity of the nation's Hispanic population, differences in the size of the Hispanic population, in the magnitude of the Hispanic homeownership gap, and variations in housing affordability.

The literature review also suggests that gaining access to affordable mortgage financing is an important barrier for many prospective Hispanic homebuyers. The third report in the series builds on this finding by examining the underwriting guidelines used by Fannie Mae, Freddie Mac, the Federal Housing Administration (FHA), and one subprime lender to determine the extent to which these underwriting barriers persist even after a decade of innovation in the mortgage market to improve access among low-income and immigrant homebuyers (Burnett et al., 2006).

The final four reports in the research series also build on the findings of the literature review by using nationally representative data on Hispanic households to investigate specific topics that were identified as areas where further research is needed. The subjects of these studies are:

- A comparison of the housing situation of Hispanics, whites, and blacks, including the prevalence of homeownership, the level of housing expenditures, and the degree of satisfaction with the home and neighborhood (Boehm and Schlottmann, 2006a);
- An examination of differences in mortgage interest rates obtained by Hispanic, white, and black homebuyers after controlling for available household and housing unit characteristics (Boehm and Schlottmann, 2006b);
- An analysis of the influence of Hispanic ethnic enclaves on the likelihood of homeownership among Hispanics with limited English proficiency (Haurin and Rosenthal, 2006); and
- An examination of geographic differences in homeownership rate gaps among young Hispanic households, and the association of these differences with the characteristics of the Hispanic population and the market areas (Masnick, 2006).

The following section synthesizes the findings from these seven studies. The next section presents a detailed summary of each of these studies individually. Complete references for the studies are given at the end of this report.

Summary of Key Findings from the Research Series

Hispanic Homeownership Gaps: Determining Factors and Trends

As Cortes et al. (2006a) make clear, the starting point for understanding the causes of the sizeable Hispanic-white homeownership gap is the recognition that Hispanics are not a single homogeneous group, but rather a diverse community. Hispanics in the U.S. trace their origins to a broad range of countries, with some having immigrated only recently and others having lived in the U.S. for generations. The different nationalities and tenure in the U.S. are reflected, in turn, in differences in their English-speaking skills, the likelihood of being a citizen, demographic characteristics, socio-economic status, and geographic location. According to Cortes et al. (2006a), nearly all of these characteristics have measurable, significant effects on a Hispanic household's likelihood of becoming a homeowner, and the magnitude and causes of Hispanic-white homeownership gaps vary from market to market.

Variation in Hispanic-white homeownership gaps by market is the focus of two studies in the research series. Cortes et al. (2006b) delve into how the diversity of the Hispanic population is related to differences in homeownership gaps across markets by presenting case studies of three markets: Orlando, San Antonio, and Washington DC. The Hispanic population in Orlando is predominantly Puerto Rican; San Antonio is overwhelmingly Mexican; and Washington, DC is mostly Central American. The three case studies highlight the different barriers faced by these different Hispanic groups. Puerto Ricans are legal citizens, and their legal status grants them access to mortgage products that are not available to undocumented Hispanics. By contrast, proper documentation among Mexican and Central American immigrants is a problem in both San Antonio and Washington DC. In Orlando, migration patterns play an important role in understanding homeownership rates and barriers, with a large share of area Hispanics moving in from major metropolitan areas from the North. These new entrants in the market tend to be better off financially and thus more able to purchase homes. In San Antonio, Hispanics comprise a large share of the total population, which has facilitated the growth of organizations targeting their services to this population. The proliferation of organizations has helped to make Hispanic homeownership rates higher than in most other metropolitan areas. Finally, in Washington DC Hispanic homeownership gaps do not narrow as household income increases, which is unlike the national pattern. Cortes et al. (2006b) hypothesize that many high-income Hispanics may be drawn to the area for a relatively short period of government service, and so homeownership may not be an appropriate housing choice.

Masnick (2006) also explores this issue in depth by comparing the homeownership gaps for young Hispanics in 100 counties with large Hispanic populations. Masnick observes that homeownership gaps tend to be smaller in South and West and largest in Northeast. In part, higher rates of homeownership among Hispanics in the South and West are related to the higher share of households consisting of married couples with children that tend to be more attracted to homeownership. He also finds that a greater share of Hispanics that are citizens is strongly associated with smaller gaps in the South and West, but not in the Northeast. He attributes this to the fact that Puerto Ricans account for a large share of Hispanics in the Northeast. Masnick also finds that higher homeownership rates among whites is associated with smaller Hispanic homeownership gaps—suggesting that Hispanics have a particularly difficult time buying homes in markets where whites also have greater difficulty become owners.

Cortes et al. (2006a) present a thorough review of the literature examining the factors contributing to the observed Hispanic-white homeownership gaps. They conclude that Hispanic homeownership rates are affected by many of the same demographic characteristics that influence homeownership rates among all households, with much of the gap explained by Hispanics' low income and wealth, younger age profile, and lower levels of educational attainment. But Hispanic homeownership rates are also shaped by characteristics that are particular to the Hispanic community, most notably the high share of immigrants and their concentration in higher cost urban areas, particularly in the West. The large share of immigrants among Hispanics is particularly important in explaining Hispanic-white homeownership gaps, as studies that include factors related to Hispanics' immigration status, including the number of years residing in the U.S. and citizenship status, are able to account for much of the remaining difference in homeownership rates.

Several of the studies conducted as part of this research series confirm the importance of immigration status in explaining Hispanic homeownership rates. In an analysis using data from the American Housing Survey, Boehm and Schlottmann (2006a) compare the factors that predict homeownership for whites, blacks, and Hispanics and find that immigrants are significantly less likely to be owners. They also find that non-white Hispanics are much less likely to own than white Hispanics, highlighting the importance of race in addition to ethnicity in explaining homeownership gaps for some segments of the Hispanic population. Haurin and Rosenthal (2006) use 2000 decennial census data to examine the factors that are associated with Hispanic homeownership. They similarly confirm the significance of immigration status (especially the number of years an immigrant has been in the U.S.), as well as English-language speaking skills, in shaping Hispanic homeownership rates.

Finally, Masnick (2006) also finds that a lower citizenship rate among Hispanics is associated with higher homeownership gaps at the county level.

Key Barriers to Hispanic Homeownership

Cortes et al. (2006a) also synthesize findings from the literature that document how Hispanics confront numerous barriers to homeownership and categorizes these barriers into three types: information gaps, and housing and mortgage market barriers. Surveys of Hispanic renters have found that a lack of information or misinformation about the homebuying and mortgage qualification processes has discouraged some Hispanics from pursuing homeownership. Interviews with local organizations working with Hispanics seeking to buy homes in the case study sites confirm the importance of these informational barriers (Cortes et al., 2006b). The case studies suggest that many Hispanics, particularly immigrants, are uninformed about the homebuying process and are unfamiliar with the roles played by different representatives from the real estate and finance industries during the process. This lack of knowledge is attributable to their disengagement from mainstream financial institutions and poor English-speaking skills. In addition, some Hispanics harbor misconceptions about the mortgage qualification process and typically overestimate the requirements to qualify for a mortgage—for example, they assume that large downpayments and perfect credit are required to buy a home. On the other hand, other Hispanics underestimate the mortgage qualification requirements by assuming that anyone with a history of bankruptcies, poor credit, and insufficient savings can qualify for a loan.

Another barrier to Hispanics' ability to achieve homeownership, particularly in the West and Northeast, is a lack of affordable and attractive housing (Cortes et al., 2006a, 2006b). Again, findings from the case studies help to illustrate this issue. Many of the local agencies that participated in the study, particularly in Orlando and Washington, DC, consistently cite the lack of affordable housing as a primary barrier to Hispanic homeownership. While there are affordable homeownership opportunities in San Antonio, those interviewed note that these homes are generally in poor condition and located in unattractive neighborhoods. The issue of finding attractive homes and neighborhoods was evident across all three markets. Staff from several agencies observed that their clients would rather rent in a predominantly Hispanic neighborhood than become a homeowner in a predominantly African American or white neighborhood, or in some cases, a neighborhood identified with a different Hispanic community. These preferences further limit the range of affordable housing options.

Gaining access to mortgage finance is another key barrier to Hispanic homeownership (Burnett et al., 2006; Cortes et al., 2006a, 2006b). Access to housing finance is particularly challenging for Hispanics because many have low wealth and income, poor credit histories, frequent changes in employment, and lack of proper documentation, all of which make it difficult to meet standard underwriting guidelines. For example, Cortes et al. (2006b) indicate that some Hispanics do not believe in using credit to make purchases and may not have a savings or checking account due to a combination of factors, including: a lack of information, poor financial literacy skills, a general mistrust of the U.S. banking system, and poor English-speaking skills. The case studies also suggest that Hispanics' financial status may differ between first- and second-generation Hispanic households. First generation households may distrust and avoid financial systems in the United States even after being in the country for several years, while second generation households are more likely to become overly indebted, resulting in poor credit histories. In addition, discrimination in the mortgage application process can also frustrate Hispanics' pursuit of homeownership (Cortes et al., 2006a).

Efforts to Improve Hispanic Homeownership Opportunities

The literature review documents how government agencies and local communities have developed a range of programs to help move Hispanic households into homeownership (Cortes et al., 2006a). Many of these programs are designed to bridge information gaps through homeownership education and counseling and financial literacy courses that are targeted specifically at the Hispanic community. Programs target their activities through specialized outreach efforts within the Hispanic community and by offering materials and instruction in Spanish. Several of these programs also provide some combination of downpayment and closing cost assistance, low cost mortgage products, mortgage products with relaxed underwriting guidelines, and alternative approaches to resolving residency concerns both to help make homeownership affordable and to expand Hispanics' access to mortgage financing. Furthermore, while less common, some programs attempt to improve the supply of affordable housing opportunities by granting development cost subsidies, providing regulatory relief, and reducing discriminatory practices in the housing market. Most of these policies are designed to help all low-income households become homeowners, but are marketed and tailored by local groups that serve Hispanic communities. Unfortunately, it is difficult to catalogue and assess the scale and geographic coverage of the myriad programs and services available to Hispanic households because there is only anecdotal information about how these efforts specifically aid Hispanics. Also, remarkably little is known about the effectiveness of various approaches to improving homeownership among low-income households generally or Hispanics specifically.

The case studies provide in depth information on the nature of services provided by a sample of organizations in three markets areas. A few key observations emerged from these case studies. First, the majority of Hispanic clients need a range of services to support them throughout the homebuying process: beginning with services that introduce them to the homebuying process; followed by services designed to prepare them for purchasing a home, including assistance with obtaining mortgage financing; and concluding with closing assistance. However, few organizations in these markets are comprehensive "one-stop-shops" for homeownership services and most rely on their referral networks to supplement their in-house services. As a result, prospective Hispanic homebuyers in these markets are typically required to cobble these services together from multiple organizations. These breaks in the chain of service provision may result in incomplete homebuying processes if some Hispanic households fail to follow through with the referrals.

Second, individual local organizations operated within their own preferred network of providers to supplement their services, and only a few organizations were common across these provider-specific networks. These provider-specific networks tend to be small (three to six partners), highly coordinated, and based on trusted relationship that have developed over time. Thus, although the case studies did find a few efforts to better coordinate services metropolitan-area-wide, service coordination is fragmented within metropolitan areas.

Finally, organizations that participated in the case studies also reported that there is strong demand for homeownership services among Hispanics, but that the capacity to serve these clients is increasingly strained by the growing demand for services. Most service providers interviewed for the case studies serve Hispanics earning between 50 to 80 percent of area median income (AMI), which typically represents about 25 percent of all Hispanic renters in these communities (or about 9,000 renters in Orlando, 22,000 renters in San Antonio, and 16,000 renters in Washington DC). A similar proportion of Hispanic renters in these communities earn 80 to 120 percent of AMI. These renters often do not qualify for downpayment assistance programs and may not qualify for services from some of the service providers in the case studies. Thus, there is a large group of Hispanic renters that is in a good position to purchase a home but may not receive services or financial support they would need to complete the process. Furthermore, according to all the organizations in case studies, the demand for homeownership services is expected to grow dramatically as the Hispanic population increases in each of these communities.

Haurin and Rosenthal (2006) provide indirect evidence that service networks that focus on Hispanic homebuying clients may help to increase their homeownership rates. Their analysis of data from the decennial census finds that Hispanics that lived in areas with relatively high concentration of Spanish-speaking households in 1995 were more likely to be homeowners in 2000. They speculate that this result may reflect the fact that areas with a high concentration of Spanish-speaking residents will be more likely to foster a network of service providers (such as housing counseling agencies, real estate agents, and lenders) that caters to this population. In fact, the San Antonio case study reinforces this finding. Hispanics constitute almost half of the total population (45 percent) in San Antonio and organizations interviewed for the case study reported that there was no shortage of Spanish-speaking housing counselors, real estate agents, or lenders.

The studies in the research series also suggest that considerable progress has been made in overcoming barriers in the mortgage financing process. Over the last decade, lenders have introduced a range of mortgage products that relax many key underwriting guidelines—particularly in terms of establishing a credit history, verifying income, documenting employment history, and verifying assets—that have eased the financing barriers for prospective low-income and minority homebuyers. For example, Burnett et al. (2006) demonstrate that Fannie Mae, Freddie Mac, and FHA all have standard products that allow a borrower to be approved for a mortgage without a formal credit history with credit reporting agencies; several products do not require two years of employment history for mortgage approval; and some products allow cash accumulated through savings clubs and cash saved at home to be considered acceptable sources of funds to close on a mortgage. Indeed, interviews conducted with local organizations in the three case studies revealed that the process of obtaining mortgage financing has been facilitated by the growing use of flexible mortgage products and also by the increased availability of downpayment assistance programs. However, Burnett et al. (2006) conclude that important barriers in the mortgage financing process remain, especially the requirement that borrowers be legal residents and limitations on the share of the borrower's total income that can be earned in cash.

The studies by Boehm and Schlottmann (2006a and 2006b) and Masnick provide some insight into the mortgage choices made by Hispanic homebuyers. The two studies by Boehm and Schlottmann use data from the American Housing Survey for the years 1998, 2002, and 2004 and find that Hispanics take on more mortgage debt and have higher housing costs relative to their income than either whites or blacks. Masnick's analysis of data from the 2000 decennial census confirms that Hispanics do face higher housing costs than whites. This may reflect the fact that Hispanics have lower incomes and wealth levels that lead them to take on more debt. Boehm and Schlottmann (2006b) also find that Hispanics face mortgage interest rates that are between 15 and 21 basis points higher on average than the rates obtained by whites with similar household and housing characteristics. However, the authors also demonstrate that blacks pay mortgage interest rates that are between 21 and 42 basis points higher than those paid by whites. Importantly, their analysis does not control for a household's wealth, credit history, or employment history, which may contribute to these observed differences. Boehm and Schlottmann also note that the raw difference in interest rates between Hispanics and whites is about 30 basis points, and educational attainment explains a large portion of this difference. This result suggests that greater education might help Hispanics obtain more favorable interest rates.

Hispanics' Experience as Homeowners

While the primary focus of this research series was on understanding the factors associated with Hispanics' attainment of homeownership, Boehm and Schlottmann (2006a) also provide some perspective on the homeownership experience of Hispanics. This study finds a number of interesting differences in housing circumstances between Hispanic, African-American, and white households. Hispanic households are observed to be substantially more crowded than their racial/ethnic counterparts. The study also finds that major structural problems and interior deterioration (e.g., cracks in wall, holes in floor) appear to be worse for both minority groups as compared to whites. Having unsafe drinking water is also much more likely for Hispanic households than black or white households, as is the presence of the poorest quality heating. In terms of neighborhood quality, the perception of crime and inadequate police protection is worse for both Hispanics and blacks as compared to whites. Green space is also less likely to be near minority homes. On a positive note, it appears that a move to homeownership is associated with significant increases in housing and neighborhood satisfaction for Hispanics. While it is the case that owners from all racial/ethnic groups have higher levels of satisfaction than renters, the satisfaction differential between owners and renters is largest for low-income Hispanics.

This section has synthesized the findings from each of the seven reports produced as part of this research series. In the following sections, a detailed summary is provided for each of the seven reports. While there is a fair amount of overlap between this overall summary and the summaries for individual reports below, both types of summaries have been provided for readers seeking greater detail on the individual studies.

Improving Homeownership Opportunities for Hispanic Families: A Review of the Literature

By Alvaro Cortes, Christopher E. Herbert, Erin Wilson, and Elizabeth Clay

Purpose and Methodology

This report reviews the existing literature to examine the causes of the large gaps between the homeownership rates of Hispanics and those of non-Hispanic whites. The literature review also documents existing ways to narrow these gaps. More specifically, the goals of the report are three-fold:

1) To describe the demographic and socioeconomic characteristics of the U.S. Hispanic population and how these characteristics relate to the Hispanic homeownership gap;
2) To identify the main barriers to Hispanic homeownership, including both demographic and socioeconomic attributes of the Hispanic population and market factors such as the supply of mortgage financing, the prevalence of discriminatory treatment in both the housing and mortgage markets, and a lack of understanding and comfort with the homebuying and mortgage process by Hispanics; and
3) To catalogue existing efforts to address these barriers and to discuss what is known about the potential effectiveness of these approaches.

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

Principal Findings

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

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

Hispanics confront numerous barriers that are associated with information gaps about the homebuying process and with their ability to access the housing and mortgage finance markets. Surveys of Hispanic renters have found that information gaps about the homebuying and mortgage qualification processes have discouraged some Hispanics from pursuing homeownership because their misunderstandings about the process lead them to believe that homeownership is unaffordable or too complicated, that banks are not to be trusted, or that they would not qualify for a mortgage when, in fact, they would. Hispanics' access to housing markets is limited by affordability barriers and by discrimination that restricts their housing search.

In addition, access to housing finance is limited by poor credit histories, low wealth and income, and lack of proper documentation, which makes it difficult to meet standard underwriting guidelines. One significant factor explaining the relatively low homeownership rates among Hispanics is that, compared to whites, a relatively large share of Hispanics have low-incomes and low wealth levels. While there are a number of policies, such as downpayment grants, aimed at assisting low-income and low-wealth households become homeowners, the number of households assisted annually by these efforts is fairly small compared to the number of households that need this type of assistance. Discrimination in the mortgage application process can also frustrate Hispanics' pursuit of homeownership

Although the confluence of all of these barriers may seem insurmountable, government agencies and local communities have developed a litany of programs to help move Hispanic households into homeownership—but the success of many of these programs at addressing the specific needs of Hispanic families has yet to be firmly established. Some of these programs are designed to bridge information gaps through homeownership education and counseling and through financial literacy courses. These programs are targeted specifically at the Hispanic community through specialized outreach efforts and by offering materials and instruction in Spanish. Other programs attempt to improve the supply of affordable housing opportunities by granting development cost subsidies, providing regulatory relief, and reducing discriminatory practices in the housing and mortgage markets. Many other programs use down payment and closing cost assistance, income subsidies for mortgage payment, relaxed mortgage underwriting guidelines, reductions in mortgage interest rates, and alternative approaches to resolving residency concerns both to help make homeownership affordable and to expand Hispanics' access to mortgage financing. Most of these policies are designed to help all low-income households, but are marketed and tailored by local groups that serve Hispanic communities.

It is difficult to catalogue and assess the scale and geographic coverage of the myriad programs and services available to help Hispanics households become homeowners. As the literature review demonstrates, there is only anecdotal information about efforts to specifically aide Hispanic households. Also, remarkably little is known about the effectiveness of various approaches to improving homeownership among low-income households generally or Hispanics specifically. The research that does exist primarily focuses on estimating the importance of reductions in access to mortgage finance to increasing homeownership rates. These studies suggest that Hispanic homeownership could be improved by between 3 to 7 percentage points if mortgage underwriting constraints were relaxed. However, no study has evaluated the potential impact of efforts to address significant informational gaps among Hispanics, especially immigrant households, on their propensity to become homeowners.

Taken as a whole, this report suggests that Hispanics face a number of formidable barriers to homeownership in the U.S. While there are numerous examples of efforts by local and national organizations to address these informational, housing and mortgage market barriers to homeownership, little is known about their effectiveness. There is a clear need for further research on the effectiveness of these efforts to ensure that resources devoted to expanding homeownership opportunities for Hispanics are well targeted.

Outline of the Report

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

Efforts to Improve Homeownership Opportunities for Hispanics: Case Studies of Three Market Areas

By Alvaro Cortes, Erin Wilson, Christopher E. Herbert, and Pedram Mahdavi

Purpose and Methodology

The literature review presents a picture of national trends in Hispanic homeownership rates and gaps, discusses what is known about the causes of these gaps, and describes existing strategies being implemented around the country to help overcome barriers to Hispanic homeownership. This report complements the literature review by focusing on each of these issues from a local perspective. The findings presented in this report are based on interviews with key organizations located in three metropolitan areas: Orlando (FL), San Antonio (TX), and Washington DC. These markets were selected to reflect differences in the ethnic composition of the Hispanic population, the size of the Hispanic population relative to the market area, the width of the gap, and the degree of housing affordability. For each market, the report provides an in-depth analysis of Hispanic homeownership rates and gaps and the efforts to address these gaps by exploring:

- The demographic profile of the Hispanic population;

- Hispanic homeownership rates and gaps in comparison to national trends and to non-Hispanic whites;
- Major barriers to Hispanic homeownership, including lack of information about the homebuying or mortgage qualification process, as well as barriers in the housing and mortgage markets;
- The services offered by providers to improve Hispanics' access to homeownership opportunities; and
- The scale of, and demand for, homeownership services, as well as approaches to marketing and coordinating services.

The report is based on analysis of data from the decennial census and in-depth interviews that were conducted onsite with staff from a range of service providers, including housing counselors, affordable housing developers, mortgage lenders and loan officers, and real estate agents. Each of these industry representatives provides an important perspective about the barriers confronting Hispanics and about the ability of service providers to address these challenges.

Principal Findings

Hispanic homeownership rates and gaps are shaped by the demographic and socioeconomic characteristics of Hispanics. The three case studies highlight the different barriers faced by the three predominant Hispanic groups represented in these communities: Puerto Ricans, Mexicans, and Central Americans. Puerto Ricans are legal citizens, and their legal status grants them access to mortgage products that are not available to undocumented Hispanics. By contrast, proper documentation among Mexican and Central American immigrants is a problem in both San Antonio and Washington DC.

In Orlando, migration patterns play an important role in understanding homeownership rates and barriers. Hispanics from the North (e.g., Boston and Chicago) and from Miami are moving to Central Florida and these Hispanics generally are better off financially and are able to purchase homes in Central Florida. Census 2000 data suggests that 69 percent of Hispanics in the Orlando metropolitan area were in a different house in 1995, and among these Hispanics, 26 percent came from a different state (more than half of them from the Northeast). These Hispanics are potentially responsible for driving the higher homeownership rates in Orlando when compared to those of other metropolitan areas.

Hispanics comprise a large share of the total population in San Antonio (45 percent in 2000), and service providers repeatedly indicate that this explains in part why Hispanic homeownership rates are higher in San Antonio than in most other metropolitan areas. The demand for homeownership services among Hispanics grows as the Hispanic population grows, which, in turn, prompts more service providers to offer targeted services to Hispanics.

The Washington DC case study demonstrates that Hispanic homeownership gaps do not always narrow as household income increases. This finding counters the prevailing association between income and homeownership rates that has been established in the literature. Although Hispanic homeownership rates increase steadily as income levels increase, gaps do not show any pattern of increase or decrease as income increases; rather they fluctuate between 19 percent and 28 percent across all income levels. The fluctuations in gaps in Washington DC may be attributable to the transient professional, diplomatic, and other international representatives that tend to rent for short periods of time and then return to their home country.

In addition to these market-specific phenomenon, the case studies highlight several barriers that are common across all markets. For example, service providers suggest that income, English proficiency, and country of origin are important characteristics that contribute to a Hispanic's likelihood of becoming a homeowner. A disproportionate share of Hispanic households is low-income, which is related to the fact that a high share of Hispanics work in the service industry. English proficiency among Hispanics is another important factor, because language skills affect their ability to understand the homebuying and mortgage qualification process—e.g., to understand critical documents such as credit reports, tax forms, and mortgage applications. Without this understanding, Hispanics are less willing to consider pursuing homeownership opportunities or less likely to successfully complete the homebuying process.

The most commonly identified barriers to homeownership among Hispanics are lack of information about the homebuying and mortgage qualification process, lack of affordable housing, and lack of credit or poor credit histories. Some Hispanics, particularly immigrants, are uninformed about the homebuying process and are unfamiliar with the roles played by different actors in the real estate and mortgage finance industries during the process. This lack of knowledge is attributable to their disengagement from mainstream financial institutions and poor English-speaking skills. In addition, some Hispanics harbor misconceptions about the mortgage qualification process and typically overestimate the requirements to qualify for a mortgage—for example, they assume that large downpayments and perfect credit are required to buy a home. These misconceptions discourage some Hispanics from pursuing homeownership opportunities, undermine their confidence in completing the process, and leave them vulnerable to predatory lending practices.

Service providers consistently cite the lack of affordable housing as a primary barrier to Hispanic homeownership. Several factors were identified as contributing to the housing affordability problem, including: escalating costs of land, infrastructure, and construction materials that limit opportunities to develop new affordable homes for low-income populations; stagnant incomes among low-income households in recent years; and the concentration of the affordable housing stock in distressed neighborhoods or in neighborhoods that are predominantly African-American or white. A few service providers report that some Hispanics would rather rent in a predominantly Hispanic neighborhood than become a homeowner in a predominantly African American or white neighborhood, or in some cases, a neighborhood populated mostly by a different Hispanic community. These preferences limit the availability of affordable housing to the extent that Hispanics limit their housing search to a small number of communities with a fraction of the metropolitan area's affordable housing stock.

Finally, a lack of credit or poor credit severely limits the ability of some Hispanics to qualify for mortgage products. Some Hispanics simply do not believe in using credit to make purchases and there is also a relatively high share of Hispanics who do not have a savings or checking account. These financial barriers to homeownership are often associated with Hispanics' lack of information about the costs and benefits of these services, poor financial literacy skills, a general mistrust of the U.S. banking system, and poor English-speaking skills. Interestingly, the nature of Hispanics' financial challenges differs between first- and second-generation Hispanic households. First generation households are more likely to distrust and avoid financial systems in the United States even after being in the country for several years and thus lack a credit history, while second generation households are more likely to become overly indebted, resulting in poor credit histories.

The housing financing process is made easier by the growing use of flexible mortgage products and downpayment assistance programs, but the efficacy of these financing packages is limited by a community's housing market characteristics. The case studies suggest that there are an increasing number of flexible mortgage products capable of addressing credit and other financial barriers to mortgage financing. Some of these products de-emphasize underwriting guidelines that have traditionally served as barriers to qualifying for a loan (e.g., documenting income and employment), feature low fixed interest rates, and offer second mortgages that can be forgiven over time. For example, a pilot program in the Washington DC area allows applicants to use an Individual Tax Identification number in lieu of a Social Security number. In addition, local agencies rely on a variety of downpayment assistance programs to help Hispanics overcome the initial costs of becoming a homeowner. These programs are offered by all levels of government and are particularly effective at helping Hispanic clients with insufficient savings or wealth to afford the initial costs associated with homebuying. However, the impact of these financing packages on overall Hispanic homeownership rates is questionable. The availability of products that use an ITIN in lieu of SSN is very limited, and the amount of downpayment assistance is small relative to the rising costs of housing.

The majority of Hispanic clients need a range of services to help navigate the home buying process from the point of deciding whether homeownership is feasible to closing on a home. But clients are typically required to cobble these services together from multiple providers in order to overcome the barriers to homeownership. Service providers offer a wide-range of services to help Hispanics overcome barriers to homeownership, including: homebuyer education counseling, financial literacy classes, housing search assistance, development of affordable housing, assistance with the mortgage qualification process, access to mortgage products, wealth building opportunities, immigration services, downpayment assistance, guidance through the closing process, post-purchase counseling, and referrals to other service providers. Although a few providers have the capacity to function as a "one-stop-shop" for services by providing many of these services in-house, service providers typically offer only some of these services as part of their formal service package and routinely make referrals to other service providers to supplement their services. These breaks in the chain of service provision potentially leave homebuyers vulnerable to manipulation.

Housing counseling agencies offer the most comprehensive package of services and typically use three different service delivery models: group seminars, one-on-one sessions, or informal counseling. Most clients receive services through all three service models. Group seminars are designed to provide a broad, introductory overview of the homebuying and mortgage qualification process in a relatively short amount of time. One-on-one counseling typically focuses on the financial barriers to homeownership and includes a thorough review of each client's credit report, the development of a budget and financial action plan, and an assessment of the client's ability to qualify for a mortgage. Informal counseling includes the ad hoc guidance that is provided along with the formal provision of services throughout the homebuying process.

Service providers operate within their own, unique network of preferred service providers and, as a result, service coordination is fragmented within metropolitan areas. Despite a few efforts to better coordinate services metropolitan-area-wide, service providers rely almost exclusively on their own trusted network of service providers to supplement their services, including real estate agents, mortgage lenders, and community organizations as sources of referrals. These networks are developed and maintained based on trust and past experience with each service provider in the network. The provider-specific networks tend to be highly coordinated, comprehensive, and based on long-standing relationships. Although these networks tend to be small (three to six partners), the network of trusted partners has increasingly expanded to include other types of organizations that are not part of the housing and mortgage market industry, e.g., churches or neighborhood organizations.

Interviewed organizations report that there is strong demand for homeownership services among Hispanics, but also that their capacity to serve these clients is increasingly strained. In all three communities studied, the potential pool of Hispanic renters that could benefit from these services is large. Most service providers interviewed for the case studies serve Hispanics earning between 50 to 80 percent of area median income (AMI), which typically represents about 25 percent of all Hispanic renters in these communities. A similar proportion of Hispanic renters in these communities earn between 80 and 120 percent of AMI. These renters often do not qualify for downpayment assistance programs and may not qualify for counseling and other supportive services from the local agencies interviewed in these communities. Thus, there is a large group of Hispanic renters that may be well positioned to purchase a home, but may not receive services or financial support they would need to complete the process.

Demand for homeownership services is large and expected to grow as the Hispanic population increases in each of these communities. Nearly all service providers interviewed currently are operating at full capacity, and most do not have additional resources to add staff or serve new clients. Service providers were unable to quantify the precise demand for services, but offered examples of how their marketing activities, although limited, resulted in an overwhelming request for their services. Few providers engage in systematic marketing of their services, but most conduct some form of marketing through grassroots community engagements or housing fairs. According to some housing counseling agencies, their agency confronts a “marketing gap” because, unlike realtors and lenders, housing counseling agencies are not well branded in the industry.

Overall, these case studies highlight both the common barriers to Hispanic homeownership and the important differences across the U.S. housing markets where Hispanics live. Service providers in each of the communities studied are working very hard to open homeownership opportunities to Hispanics, and overall, homeownership assistance is available to address most barriers. However, a few key concerns remain. It is unclear whether the scale of these efforts will continue to meet the demand for these services; service effectiveness may be undermined by the lack of coordination across service providers and across stages of the homebuying process; and the lack of any real attention to households in the 80 to 120 income group (or higher) overlooks a large segment of Hispanics who may need help. These concerns may suggest that government’s efforts to promote homeownership among Hispanics (and other low-income households) should encourage better service coordination locally and account for service gaps in either the stages of the homebuying process or in the types of income groups served.

Review of Selected Underwriting Guidelines to Identify Potential Barriers to Hispanic Homeownership

By Kimberly Burnett, Alvaro Cortes, and Christopher E. Herbert

Purpose and Methodology

One of the findings from the literature review was that a variety of traditional mortgage underwriting guidelines could present barriers to Hispanic homeownership, including: establishing a credit history; verifying income; documenting employment history; verifying assets; and meeting requirements regarding citizenship or residency status. In addition, because Hispanics are disproportionately in low-income and low-wealth households, affordability is an important barrier to homeownership that can in part be remedied by more relaxed underwriting guidelines. However, as this report demonstrates, lenders have introduced a range of mortgage products over the past decade designed to remove identified barriers for low-income and minority homebuyers.

The purpose of this study was to assess the extent to which known barriers to Hispanic homeownership were still evident in the underwriting guidelines commonly used by three of the most common sources of residential mortgage finance—Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA). Underwriting guidelines used by one subprime lender, GMAC, were also reviewed as a point of comparison to the prime loan products of Fannie Mae, Freddie Mac, and FHA. The underwriting review began by identifying specific aspects of these guidelines that potentially limit Hispanics' access to mortgage finance. Each lender's guidelines were then reviewed to determine the current standards in each of these areas. In the case of Fannie Mae and Freddie Mac, the review covered their standard mortgage product as well as special products specifically aimed at low-income and immigrant borrowers. The review is not intended to compare the financial institutions' offerings or to comparatively rank them, but rather to highlight available products that help to overcome barriers to homeownership among Hispanics and identify remaining gaps in these products.

Principal Findings

Overall, the review found that changes over the last decade to standard mortgage products offered by these major industry participants have addressed some of the barriers to homeownership for Hispanics. This is particularly true of FHA's standard product. Furthermore, where barriers continue to exist in standard products, these barriers are often remedied in special products targeted to low- and moderate-income borrowers. Some of these products include features specifically designed to serve an immigrant population. The review of GMAC's guidelines suggests that subprime products also address some of the barriers to Hispanic homeownership, although they typically come at the cost of a higher interest rate.

The report focused on five main aspects of underwriting guidelines identified as barriers to Hispanic homeownership, including establishing a credit history, documenting income and employment, documenting assets, requirements regarding citizenship and residency status, and ability to address affordability concerns. Findings in each of these areas are summarized below.

Establishing Credit History

One of the biggest challenges in qualifying for a mortgage among low-income households, including many immigrants, is lack of a credit history with credit reporting agencies. Fannie Mae, Freddie Mac, and FHA all have standard products that allow a borrower to be approved for a mortgage without a formal credit history with credit reporting agencies. All allow the use of non-traditional credit reports or a credit history compiled by the lender, as long as it includes a minimum number of credit references. Credit scores are required, however, for GMAC's subprime products and for some products that allow a high degree of flexibility in other respects. For example, Fannie Mae's Flex 97 and Flex 100 products allow a wide variety of sources of cash to be used for the downpayment and closing costs, but require traditional credit reports.

For Hispanics and other borrowers with low credit scores, FHA's standard product allows more flexibility than is typically available in prime mortgage loans. For example, in January through June of 2000, the average FICO score for FHA purchase loans insured using a mortgage scorecard was about 630, compared with a minimum score of 660 typically required for prime mortgage approval. Targeted products offered by Fannie Mae and Freddie Mac also provide some options. For example, Fannie Mae's Community Lending products allow approval of borrowers with credit scores of 600 to 620. In addition, GMAC's subprime products allow credit scores of as low as 520, although these products are typically associated with a higher interest rate.

Documenting Income and Employment History

Traditional mortgage underwriting verifies income by reviewing paycheck stubs and tax returns, as well as by contacting employers of the borrower and co-borrower. It also generally requires documentation of a borrower's work history over the previous two years as proof of income stability. Low-income individuals, particularly immigrants, may not have income that can be documented by pay stubs because they are more likely to be routinely paid in cash. Potential borrowers may have difficulty documenting two years of work history if their employers are uncooperative or management has turned over. Borrowers may also have difficulty meeting this requirement if they have not been living in the U.S. for two years or if their employment history is marked by "job hopping" and lengthy gaps in employment, which, for example, can be associated with return visits to their native country

Fannie Mae, Freddie Mac, and FHA do not require two years of employment history for mortgage approval in standard products (one year is acceptable for Fannie Mae and Freddie Mac; FHA has no minimum requirement). In addition, frequent job changes are generally ignored as long as the borrower can document that his or her income is stable. Documentation requirements, however, remain a barrier: some form of written documentation, such as paystubs, an employer-completed form, or W-2 forms, is required.

With minor exceptions, income received in cash cannot be included as a primary or secondary source of income. This is true for standard products offered by FHA, Fannie Mae, and Freddie Mac, as well as the targeted products offered by Fannie Mae and Freddie Mac and the subprime products offered by GMAC. While Fannie Mae, Freddie Mac, and GMAC all have products that allow low or no income documentation, these allow less flexibility than standard and targeted products in other regards. For example, Freddie Mac's stated income product requires high credit scores, a large downpayment, and large cash reserves.

Most mortgage products allow rent paid by family members to be included in the borrower's income. FHA's standard product allows rental income from boarders in a one-unit property to be included in the borrower's qualifying income, if the boarders are related to the borrower, and if the income is shown on the borrower's tax return. Some of Freddie Mac and Fannie Mae's targeted products allow rental income from boarders in a one-unit property to be included in the borrower's qualifying income. The income does not have to be included on the borrower's tax return, although documentation is required. For one of Fannie Mae's Community Lending products, MyCommunityMortgage, the boarder is not required to be related to the borrower.

Documenting Assets

Traditional underwriting requires verification that the borrower accumulated the funds used for downpayments over time through a review of bank statements. Borrowers who do not use banks for their savings, which is not uncommon among immigrants, will not be able to meet this requirement. FHA's standard product allows both cash accumulated through savings clubs and cash saved at home to be considered acceptable sources of funds to close the mortgage if they are sufficiently documented. Targeted products offered by Fannie Mae and Freddie Mac also allow this flexibility. The documentation required to demonstrate that the borrower could have accumulated the assets over time, however, is substantial, and may discourage lenders from using this flexibility.

Some products also allow related people living together to pool funds for closing costs and downpayments, improving borrowers' ability to accumulate sufficient assets for a home purchase.

Requirements Regarding Citizenship and Residency Status

U.S. citizenship is not required for mortgage approval for standard products by any of the financial institutions reviewed in this report, although GMAC imposes some additional requirements for non-permanent resident aliens. However, legal residence in the U.S. is required for mortgage approval. Nationwide, there are only a handful of pilot programs to extend mortgage credit to borrowers who do not have valid Social Security numbers. Given the number of undocumented immigrants in the country (an estimated 6 million), most of them Hispanic, this remains an important barrier to homeownership for Hispanics.

Ability to Address Affordability Concerns

Compared to non-Hispanic whites, Hispanics households both disproportionately have low-incomes and low-wealth and also live in high cost market areas. As a result, affordability can be a significant barrier to homeownership. FHA products, as well as products offered by Fannie Mae and Freddie Mac that are targeted to low- and moderate-income households, help to address this barrier in several ways. For example, a variety of low-downpayment products are available, some requiring as little as $500 of the borrower's own funds, which reduce barriers associated with limited savings. Higher limits for housing expense-to-income and total debt-to-income ratios are available through Fannie Mae's Community Lending and Freddie Mac's Affordable Gold products, as well as GMAC's subprime products. These products reduce the barriers associated with low-incomes relative to house prices. In fact, some of Fannie Mae's products do not have maximum housing expense-to-income ratios at all. In addition, little or no financial reserves are required for some products, although some low-downpayment products require relatively high credit scores.

However, the review demonstrates that low-downpayment mortgages generally come at the expense of monthly mortgage insurance payments needed to mitigate the higher risk of these loans. High-LTV products for FHA, Fannie Mae, and Freddie Mac all require mortgage insurance, and higher, more costly, levels of mortgage insurance are generally required for loans with higher LTV ratios. The low-downpayment products offered by subprime lenders typically carry higher interest rates, which also reduces the affordability of monthly payments.

Conclusions

As described above, many of the barriers to homeownership for Hispanics that permeated common underwriting guidelines have been addressed by some widely available standard products and by products targeted to particular populations. However, a few important obstacles remain and some of them are new because targeted products can impose new requirements that are barriers themselves.

The requirement that borrowers be legal residents of the U.S. is obviously a challenging obstacle for the millions of undocumented immigrants in this country. A handful of lenders are attempting to assess whether lack of legal residence is an acceptable risk in extending mortgage credit; however, lending to illegal residents also involves political issues that may be extremely difficult to resolve.

The lack of acceptability of cash income is another important underwriting obstacle. Some smaller community lenders have begun to experiment with approving mortgages that allow a limited share of the borrower's total income to be earned in cash. If these mortgages prove to be acceptable risks, the GSEs may eventually make similar allowances in future offerings of targeted products.

Lastly, one of the trade-offs for flexibility in underwriting in some targeted products is a requirement that borrowers receive homebuyer education and counseling. Fannie Mae's Community Lending products require homebuyer education and counseling under most circumstances, as do Freddie Mac's Affordable Gold products. Although homebuyer education and counseling can be a benefit to borrowers, this requirement could pose a barrier to homeownership if Spanish-speaking education and counseling programs are not available widely, and if this requirement leads to lender reluctance to promote the products.

Housing Tenure, Expenditure, and Satisfaction across Hispanic, African-American, and White Households: Evidence from the American Housing Survey

By Thomas P. Boehm and Alan M. Schlottmann

Purpose and Methodology

Recent U.S. Census information suggests that the proportion of Hispanic families has eclipsed that of African-Americans as the largest minority group. Yet, in looking at the housing literature, relatively little statistical analysis has been done to consider the housing situation of Hispanics compared to other racial/ethnic groups. This study pools the 1998, 2002, and 2004 metropolitan area samples of the American Housing Survey to compare the housing situations of Hispanic, African-American, and white households. The full-sample includes approximately 17,968 Hispanic households of which 6,446 were recent movers into the dwellings they occupied during the interview.

The analysis presented in this report has two primary components. In the first part of the study, the likelihood of ownership, levels of house prices (for owners), and contract rent (for renters) were considered across race/ethnicity for both the full sample and the subset of recent movers. Considering all households and recent movers separately brings a different perspective through which to evaluate the forces shaping the housing outcomes for each group. Specifically, the full sample shows how everyone is housed at a given point in time, which highlights differences in housing circumstances across income and racial groups that have developed over the past decade. The sample of recent movers highlights differential outcomes for households who have recently, actively made adjustments in their housing consumption based on their current socio-economic characteristics, and the current housing and mortgage market conditions that exist.

The second part of the analysis focuses on differences in ordinal rankings (on a scale of 1 to 10) of structural and neighborhood quality between Hispanic, African-American and white households. An ordinal probit model is used to estimate the impact of various specific structural and neighborhood characteristics on these overall rankings. This analysis also examines the average differences in these specific characteristics across racial-ethnic/income groups and draws implications regarding housing and neighborhood quality.

Principal Findings

A number of interesting differences in housing circumstances between Hispanic, African-American, and white households are revealed. In particular, even when controlling for income and savings, level of education, age, marital status, family size, the housing market in which the unit was located, and (for a sub-sample where this information was available) the length of time non-natural born residents have been in the U.S., compared to whites both black families and Hispanic families had significantly lower likelihood of homeownership, lower house values (for owners), and lower rents (for renters) in both the full and recent mover samples. Comparing blacks and Hispanics, housing outcomes are generally worse for African-American families in this sample than for Hispanics. Specifically, blacks are observed to have slightly lower rates of ownership and substantially lower valued homes and lower rents for both high- and low-income subgroups.

In addition, when those identified as Hispanic were split into white and non-white subgroups, these outcomes appeared consistently worse for the non-white subgroup when employing the full sample. While it is not clear what combination of forces caused these differences for the two Hispanic groups, this result has not appeared previously in the literature. It suggests that over the years non-white Hispanic families' housing market experiences have been more comparable to African-American families than have those of their white Hispanic counterparts.

Finally, recent immigrants to the U.S. are significantly less likely to be owners than earlier immigrants or those who did not immigrate, and those who rent have a significantly lower level of expenditure on rent. On a positive note, rent subsidies appear to have a significant impact on lowering rental payments for both recent movers and the full sample of households.

In addition, Hispanic homeowners in the full sample, particularly low-income households, tend to have more mortgage debt than whites or blacks. This result is much less prominent for recent-movers, which suggests the possibility of a dynamic process occurring over time in which housing debt is accumulated through junior mortgages, home equity loans, and/or refinancing. Also, Hispanic households are observed to be substantially more crowded in both owned and rented units than their racial/ethnic counterparts. Finally, because of higher mortgage debt levels, and/or, possibly, worse loan terms, black and Hispanic homeowners have relatively high monthly costs per square foot for owned homes as compared to their white counterparts. This result was observed for both the full sample as well as recent movers.

Regarding both the dwelling unit and the neighborhood, the primary factor contributing to systematic differences in quality measures is housing tenure, regardless of race. Owners consistently rank both their structural housing characteristics and neighborhood quality higher than renters; hence the significance of the preceding analysis which demonstrates the lower likelihood of ownership for the minority households in the sample. Low-income households, particularly Hispanics, have the largest differentials between renters' and owners' average rankings of neighborhood and dwelling structural quality. For low-income Hispanics, average structural quality ranges from 8.36 for owners to 7.39 for renters and for neighborhood quality the difference is 8.02 (owners) compared to 7.34 (renters).

In considering specific structural and neighborhood characteristics, regardless of race, Americans are in basic agreement about what factors are important to having quality housing. Internal and external leaks, the quality of plumbing and water, major structural problems, and interior deterioration of the unit all have a significant impact on structural quality rankings. Similarly, issues of crime and police protection, noise problems, roads in need of repair, junk and abandoned buildings create an undesirable environment, while green space and newer buildings are associated with higher quality neighborhoods.

However, substantial differences are apparent when comparing the mean quality levels for individual characteristics by minority status. Major structural problems and interior deterioration (e.g., cracks in wall, holes in floor) appear to be worse for both minority groups as compared to whites. Having unsafe drinking water is much more likely for Hispanic households than black or white households as is the presence of the poorest quality heating. Similar comments apply for the determinants of neighborhood quality. Most notable is the fact that the perception of crime problems and inadequate police protection is worse for both minority groups as compared to whites. Particularly with owned units, green space is less likely to be near minority homes. Consistent with the inner city locations associated with many of the units occupied by African-American families, whether owners or renters, their units are located such that a higher proportion of them have abandoned buildings nearby. Finally, minority rental units appear to be located in neighborhoods in which road repairs are more likely to be a concern.

Conclusions

To summarize, minority households, whether Hispanic or African-American, are observed to have substantially worse housing outcomes than comparable white households. Also, the factors that determine good structural and neighborhood quality appear consistent across all household types, i.e., they agree on what makes good housing. If mean house values and rental expenditure levels of blacks and Hispanics are compared, the African-American families in the sample have somewhat less desirable housing outcomes than their Hispanic counterparts. However, several unique issues have been identified for the Hispanic households in the sample, e.g., crowding, high debt levels and high annual housing costs per square foot for owners, bad water, and low quality heating. This study represents a first step in understanding the way in which the housing circumstances of Hispanic families compare to other household types. A clear understanding of the nature of housing similarities and differences across different racial/ethnic groups is critical to designing housing policies that promote equal housing opportunities for all Americans.

Mortgage Pricing Differentials Across Hispanic, Black and White Households: Evidence from the American Housing Survey

By Thomas P. Boehm and Alan M. Schlottmann

Purpose and Methodology

This analysis uses recent metropolitan area samples of the American Housing Survey (AHS) for 1998, 2002, and 2004 both to investigate differences in the terms, conditions, and use of mortgage financing alternatives, and to see how financing and mortgage rates differ for Hispanics as compared to other racial/ethnic groups across a number of different U.S. housing markets. The principal focus of the study is to examine the extent to which differences in the interest rates obtained by homeowners of different race/ethnicity and income levels can be explained by differences in characteristics of the borrowers, the property, and the loan itself. First mortgages are stratified into submarkets by conventional versus VA/FHA and home purchase versus refinance. In addition, home purchase loans are evaluated for recent movers as well as a full sample of all owners who have mortgage debt. The recent mover sub-sample shows how choices made under current market conditions compare with the situation of the full sample of household whose current home mortgage circumstances reflect financing and housing decisions made over time—often many years prior to the interview year. Finally, for the full sample, both junior mortgages and home equity loans, which have not previously been considered in the mortgage pricing literature, are evaluated to see how their terms, conditions, and use vary across household categories. While limitations in the information available in the AHS do not allow the determination of whether or not discrimination exists for minorities in the sample, this data set does identify important differences in the characteristics of these households, which affect mortgage pricing. Such insights often suggest avenues for future research and possible policy implications.

Principal Findings

In general, black households in the sample do not appear to be doing as well financially as either the white or Hispanic households, as evidenced by substantially lower incomes and house values across all markets for African-Americans. Hispanic households appear to have a relatively high burden of first mortgage debt. Among lower-income families in the full sample, 67 percent of the Hispanic households have a housing-cost-to-income ratio that exceeds 32 percent. For comparable blacks and whites the percentages are 62 percent and 61 percent. For recent movers, in the conventional market, 49 percent of lower-income Hispanic families have loan-to-value ratios that are greater than 90 percent. The percentage for comparable black households is 44 percent and for whites only 30 percent.

Findings for First Mortgages

In the pricing regressions for first mortgages in the conventional market, even when controlling for differentials in available household, loan, and property characteristics, blacks and Hispanics (particularly non-white Hispanics) have significantly higher interest rates than comparable white households. For African-Americans this differential is 21 to 42 basis points, while for non-white Hispanics the range is 13 to 15 basis points. While these differences cannot be definitively linked to discriminatory treatment in mortgage markets due to the lack of information on household credit and net-wealth or the financial institutions extending the credit (particularly regarding their underwriting policies), these results do suggest that future work is needed to answer a number of questions. Why do the observed interest-rate differentials exist between minorities and whites? Why is the magnitude of this effect so different between Hispanics and blacks? Why do white and non-white Hispanics have systematically different results? Finally, what is it that causes the only significant differential across racial groups in the FHA/VA market to be found for blacks in the full sample and not elsewhere?

In the pricing regression for first mortgages, several other independent variables appear to be consistent predictors of loan rates and have mean values that are substantially different between comparable minority and white households. In particular, educational attainment is generally an important determinant of interest rates. There are substantial differences in average educational attainment across racial/ethnic groups that might be expected to result in higher interest rates for minorities. This differential is most pronounced for Hispanic households in the full sample. For example, 12.3 percent of low-income Hispanics with conventional mortgages have achieved a college degree in the full sample and 7.9 percent in the FHA/VA market. For blacks, these numbers are 20.9 percent and 18.4 percent. In contrast, figures for comparable white household heads are 28.9 percent and 21.2 percent respectively. In the recent mover sample these educational differences also exist, but are not as pronounced.

Another variable that is consistently significant in these pricing regressions is current house value, with higher interest rates being associated with lower valued housing. Black house values are substantially lower than similar Hispanic or white households. In particular, for the low-income group in the conventional market for the full sample, the average house value for blacks is $109,883, for Hispanics it is $145,954, and for whites $160,217. In all markets but the conventional home purchase market, Hispanics and whites have relatively comparable house values. This suggests that African-Americans generally face higher interest rates because of the quality of their owned units. Finally, in the recent mover sample (the sub-sample for which loan-to-value ratios can be calculated), minority households in the conventional market tend to have a greater likelihood of being in the highest loan-to-value categories, which also contributes to having higher interest rates.

Findings for Junior Mortgages and Home Equity Loans

White households tend to be more active in these junior mortgage and home equity markets than minority households. Also, for Hispanic households who participate in these markets, particularly lower-income families, the amount of debt incurred is relatively high. For junior mortgages, Hispanic households have average debt (for just this type of loan) of $37,591 compared to $34,514 for white households, and $21,749 for African-American families. Considering these debt levels relative to annual income provides additional perspective regarding this issue. Specifically, for low-income households, this ratio is 114 percent ($37,591/$32,957) for Hispanics, 104 percent for whites, and only 77.3 percent for blacks. Similarly, for home equity loans, the ratio of home equity debt to current annual income is about 86.5 percent ($26,142 / $30, 236) for Hispanic low-income households as compared to 75.5 percent and 72.5 percent for similar blacks and whites.

In the regression analysis, controlling for other factors that might be expected to influence pricing, black households pay significantly higher rates for both second mortgages and home equity loans, whereas only non-white Hispanics have significantly higher rates in the home equity market. For blacks the estimated differences with whites are 44.7 and 52.3 basis points, respectively. For non-white Hispanics the differential in the home equity market is 62.7 basis points. For second mortgages education plays a role in determining interest rates, but is not significant in the home equity sector. As before, the minorities participating in these markets have substantially less education than comparable white households. For example, in the market for second mortgages it is estimated that college graduates pay an average of 97.1 basis points less than those who did not graduate high school on the second mortgages that they have outstanding at the time of their interview. For low-income Hispanics, only 13.7 percent of household heads have a college degree. For African-Americans the rate is about 15.5 percent. In contrast, among white low-income household heads 24.2 percent fall in this category. The other variable that is consistently significant in these regressions, as it was in the first mortgage regressions, is current house value. African-American households in this sample consistently have lower house values than whites or Hispanics. However, the estimated impact of this variable on interest rates is not large. For every $10,000 in house value it is estimated that interest rates will change by 2.6 basis points in the market for second mortgages and 1.4 basis points in the home equity market.

Conclusions

This analysis provides more information than was previously available about minority – particularly Hispanic – households' situation in the various mortgage markets in comparison to comparable white and black households. It suggests that by eliminating some fundamental differences between minority and white households, minorities may do better in achieving the lowest possible mortgage rates. Most notably, increases in the level of educational attainment by Hispanics and blacks should improve their ability to function in these financial markets.

It also suggests that more work needs to be conducted to determine the factors that cause the observed differences in mortgage rates between minority families and white families and between non-white and white Hispanics. This research represents only a first step in understanding mortgage pricing differentials across different income/ethnic groups. To fully investigate this issue, researchers need access to data that contains detailed information on the net-wealth and credit history of mortgagors as well as information on financial institutions and their underwriting criteria. Certainly, clear understanding of the way in which these credit markets work to produce differential outcomes for minority households is critical to designing policies that promote equal access to owner-occupied housing for all Americans.

Language, Agglomeration, and Hispanic Homeownership

By Donald R. Haurin and Stuart S. Rosenthal

Purpose and Methodology

This paper investigates the degree to which language barriers contribute to well-known Hispanic-white gaps in homeownership. The primary hypothesis examined in this study is that low rates of homeownership in the Hispanic community create a self-reinforcing mechanism that contributes to this large disparity. This occurs because proximity to other homeowners facilitates access to information about how to become a homeowner, especially if nearby homeowners belong to a given family's social network. To test that idea, the study examines the degree to which a given Hispanic household is more likely to own a home if the family previously lived in a neighborhood populated with a greater concentration of Hispanic owner-occupiers. This idea is investigated using household-level data from the 2000 Decennial Census. A key part of the analysis is to determine whether the presence of homeowners in the family's 1995 place of residence has a systematic effect on the family's year-2000 propensity to own a home. In conducting this analysis, controls are provided for proximity to four types of homeowners in the 1995 place of residence: homeowners that are of the family's own ethnicity/race or not, and further, whether these homeowners are of weak English-speaking ability or not. Additional controls are provided for an array of family-specific attributes as well as for the family's year-2000 metropolitan area. To further ensure that the estimated influence of proximity to existing homeowners is indicative of *causal* effects, the estimating sample is restricted to just those families that moved out of state between 1995 and 2000.

Principal Findings

Standard controls for the determinants of homeownership perform as expected. For example, families with more income are more likely to own, families with more investment income (a proxy for wealth) are more likely to own, but families with more welfare income – and therefore less wealth – are less likely to own. Similarly, the propensity to own increases with age and education, the presence of children in the family, and especially, married as opposed to single-headed households.

Somewhat different from the standard models, this study also controls for length of residency in the United States and the family's English-speaking ability. The findings here also accord with expectations and are consistent with findings from studies in the labor literature that examine the influence of immigration and linguistic ability on earnings: the propensity for homeownership is higher among families that are not recent immigrants, and also among families with strong English-speaking ability. These results begin to hint at the important role of language in gaining access to homeownership in the United States. It should also be emphasized that all of these results pertain to both a sample of non-Hispanic and Hispanic families, and also to a sample comprised of just Hispanic families. These results also hold for all levels of English-speaking ability of the individual family.

The study's most important finding is that proximity to weak English-speaking Hispanic homeowners in the 1995 place of residence increases the propensity of a Hispanic family to own a home in 2000. Moreover, this result holds regardless of the Hispanic family's own ability to speak English. Given the nature of the research design, two mechanisms seem especially likely to account for this result. The first is that the presence of weak English-speaking Hispanic homeowners signals the presence of local programs that facilitate homeownership among Hispanic households with limited English-language skills. The second is that weak English-speaking homeowners may provide powerful role model effects that encourage homeownership among other Hispanic families. The study cannot distinguish between these two mechanisms. Nevertheless, it seems clear that programs designed to educate and promote homeownership among weak English-speaking Hispanic families will have two important effects. First, and most obvious, such programs are likely to increase homeownership among the target families themselves. But second, and the focus of this study, elevating the homeownership rate among weak English-speaking Hispanic families is expected to have spillover effects that will further increase homeownership throughout the Hispanic community.

Homeownership Rate Differences Between Hispanics and Non-Hispanic Whites: Regional Variation at the County Level

By George S. Masnick

Purpose and Methodology

Most studies have identified homeownership rate gaps between Hispanics and non-Hispanic whites at the broad regional level that are in the range of 20-to-40 percent. The lower homeownership rates of Hispanic headed households compared to those headed by non-Hispanic whites have usually been explained by variables that include age structure, immigrant status and duration of residence in the U.S., country of origin and citizenship, income and wealth, and household type. However, because Hispanics are geographically concentrated both in specific markets and even in locations within specific metropolitan areas, a more accurate measure of homeownership rate gaps should be specific to those geographic areas where Hispanics live. In addition, Hispanic household heads are highly skewed toward younger ages relative to non-Hispanic whites, and since homeownership rates are higher for older households, gaps in total homeownership rates overstate the true age specific differences. On average, homeownership rate gaps for younger households are not as large as generally discussed.

This paper focuses especially on geographic variations in homeownership rate gaps for young adults age 25 to 34 where movement into first-time homeownership typically takes place. Specifically, this study examines how homeownership gaps for this age group vary across markets the 25 counties in each of the four Census Regions of the United States with the largest regional Hispanic population in 2000. The non-Hispanic white/ Hispanic homeownership rate gap for 25-34 year olds in this sample of 100 counties is examined against other economic and demographic differences between non-Hispanic whites and Hispanics in order to better understand the importance of these explanatory variables in accounting for homeownership rate gaps. Homeownership rate differences in older age groups, while important, could have emerged during earlier decades when social, demographic, economic and housing market conditions were very different from the 1990s. The goal is to better understand the reasons for homeownership rate gaps that are emerging today.

Principal Findings

The key findings from this study are:

1) There are distinct regional differences in homeownership rate gaps, with much smaller gaps in the South the West, and the largest gaps in the Northeast;
2) Homeownership gap patterns between non-Hispanic whites and Hispanics are well established by the time a cohort reaches age 25-34;
3) The higher the average county homeownership rate for whites, the smaller the homeownership rate gap;
4) Hispanic owners spend a higher share of their income on housing, and the greater the Hispanic share spent, the greater the divergence from non-Hispanic whites' levels of spending;
5) The higher levels of new housing construction in the West and South appear to enable overall higher levels of Hispanic homeownership in these regions, but gaps in the owner occupancy of the newer stock is only weakly related to gaps in young adult homeownership, with the strongest relationships in the West and Northeast;
6) In three of the four Census regions there is close parity between whites and Hispanics in the share of owners living in single family detached units—only in the Northeast is there a consistent pattern favoring whites, where the larger the gap in the share of owners in single family detached units, the higher the homeownership rate gap for young adults;
7) There is a consistent pattern in the West and South between higher shares of foreign born Hispanics who are not citizens and higher homeownership rate gaps for young adults—while in the Midwest and the Northeast, where Puerto Ricans (not classified as immigrants) are a greater share of Hispanics, citizenship status of Hispanic immigrants explains little of the overall white/ Hispanic homeownership rate gap; and
8) Higher levels of marriage and childbearing of Hispanics, particularly in the South and West undoubtedly help account for overall higher levels of homeownership of young adult Hispanic households, but it is only in the Midwest and Northeast where gaps in the share married with kids is positively related to the homeownership rate gap for young adults.

Conclusions

A major goal of this study was to identify specific counties that are outliers in the broad regional patterns observed and address a few key questions. For example, if it can be shown that counties with high housing costs generally have a higher homeownership rate gap between 25-34 year old non-Hispanic white and Hispanic headed households, are there counties in the low range of housing costs for a region that still have high homeownership rate gaps? What are other differences that might account for the high homeownership rate gaps in these counties? Are there counties that consistently stand out as outliers where lower homeownership rate gaps might have been expected based on their scores on other variables?

Counties that are above average for their homeownership gaps but have favorable values on the characteristics that are associated with higher homeownership rates are of particular interest as areas places where there are perhaps the best opportunities to improve homeownership opportunities for young Hispanics. For example, in the situation described above, where a county has affordable housing (by regional standards) but still exhibits large homeownership rate gaps, this county would be identified as a promising candidate for increasing Hispanic homeownership rates.

In the final part of the study, five counties are selected in each of the four regions that score high on homeownership rate gaps but lower on scores of variables typically used to explain homeownership gaps. These 20 counties represent places where there are perhaps the best opportunities to improve homeownership opportunities for young Hispanics. Counties with high housing costs generally do not make this short list, and with a few notable exceptions (Clark, NV, DeKalb, GA and Marion, IN) nor do counties with very high share Hispanics who are not citizens. For some of the identified counties the data suggest a fairly clear direction that efforts to increase Hispanic homeownership might take. For example, Hispanics in Maricopa, AZ, Worcester, MA, and Hartford, CT all rank high on the gap in the share in owner housing built since 1980 and on the gap in the share married couples with children. That is, Hispanics are disadvantaged relative to non-Hispanic whites on these measures, so focused efforts to increase Hispanic occupancy of newer units and efforts to bring non-traditional families into homeownership in these counties might be advisable.

Several of the identified counties outside of the Northeast rank high in the percent Hispanic foreign-born who are not citizens. Over time, one expects that citizenship status will become less of a deterrent to Hispanic homeownership in these counties as citizenship rates naturally increase. Public policies to increase Hispanic homeownership will have the advantage of demographic momentum in these counties. In the Northeast, Puerto Ricans, who are citizens, represent a large share of Hispanics. However, in these areas the issue of continuing back and forth residence between Puerto Rico and the U.S. might act like non-citizenship does for many Mexican Hispanics in deterring homeownership in other parts of the country.

Outliers were selected with high homeownership rate gaps to focus attention on where efforts might have the largest payoffs in reducing the gaps. However, an alternative strategy would be to use the analysis to see what has worked in creating low homeownership gaps and promote more of the same in those already low-gap counties. For example, mobile homes figure prominently in promoting homeownership among Hispanics in a few selected counties, and might be further promoted in those counties and in others as an affordable means of attaining homeownership.

In closing, it should be recognized that that this paper is somewhat experimental in nature, and as all experimental efforts has its shortcomings. Its goal was to motivate a paradigm shift—to move the focus of research on homeownership gaps away from the standard multivariate analyses that identify general tendencies across a broad sample of markets to an emphasis on conclusions about specific markets. In other words, to move the focus of discussion from one where the shape of the forest is more important than the characteristics of the trees that define it. The focus in this paper is redirected from the many to the few, from high or low in absolute terms to high or low in relative terms, from values to rankings, and from uniqueness to redundancy. All of this in theory could have been accomplished, perhaps, using standard statistical models by focusing on residuals. But such an effort would have been doomed from the outset because those who are comfortable with multivariate models would have slipped unavoidably into looking mostly at the shape of the forest. The paradigm would hardly have budged.

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