Jeopardizing Hispanic Homeownership: Predatory Practices in the Homebuying Market

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NCLR is the largest national constituency-based Hispanic organization, established to reduce poverty and discrimination and improve life opportunities for Hispanic Americans.
Predatory mortgage lending is a priority issue for Latinos and all American families.

- The ability of the nation’s largest minority to access the traditional avenue to wealth-building – homeownership – is important for all Americans.

- Market failures prevent Latinos from becoming homeowners and leave many vulnerable to predatory lenders.
Overview of Hispanic Homeownership

Barriers to the Traditional Market

Predatory Mortgage Lending

Policy Implications

Recommendations
Overview of Hispanic Homeownership
Snapshot of Latino households in 2003:

- Number of households increased 75%, 1993 – 2003.
- Five states with largest Hispanic population growth 1990-2000: North Carolina (393%), Arkansas (337%), Georgia (300%), Tennessee (278%), Nevada (217%).
- Latino households are more likely than White households to be in high-cost cities; two in five Latinos pay too much for housing.
- In 2003, 48% of Latinos owned their own home, up from 42% in 1993.
- However, Latino homeownership still trails that of Whites by 28 percentage points.
- The lagging homeownership rate largely explains the nine to one White-Hispanic wealth gap.
Latinos are influencing the size and shape of the mortgage market.

- In 2002, 185% more Latinos closed purchase mortgages than in 1993, compared to a 30% increase among White homebuyers.

- Despite their growing participation in the mortgage market, Latinos are not accessing equitable mortgage products.

- 40% of Hispanic borrowers used nonprime products compared to 18% of White borrowers.
Overview of Hispanic Homeownership
Barriers to the Traditional Market
Structural characteristics of the mortgage market hinder Hispanic families’ access to the best priced financing.

- **Commission-based policies**: Little incentive to serve low-income and other “hard-to-serve” families.

- **Workforce diversity**: Financial institutions lack diversity throughout their organization.
  - Only eight of the 40 Fortune 1000 commercial banks had Hispanic board members; four had Hispanic executive staff.
- **Credit scoring**: Many Latino families, as many as 40%, have “thin” or no credit file.
  - This is further complicated by Automated Underwriting systems that cannot process an application without a credit score.

- **Outreach**: Subprime lenders take in nearly twice the applications for Hispanics as they do Whites.

- **Information and Awareness**: Lack of information leads many Hispanic families to believe they cannot purchase a home or qualify for affordable financing.
Because of these barriers, many Hispanic families are vulnerable to unethical lending practices known as Predatory Mortgage Lending.
Predatory Mortgage Lending
What is Predatory Mortgage Lending?

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

Certain predatory products and tactics are common in Hispanic communities.
Legitimate products intended for niche clientele can be abused easily.

- **Contract for Deed**: A rent-to-own arrangement where the borrower does not gain title until the loan is paid off; 12% of Latino homeowners have a Contract for Deed.

- **Interest-only (IO) Loans**: A mortgage option where the borrower pays only interest without reducing principal. Many IO borrowers are Latino.
- **Mobile and Manufactured Homes**: An affordable option for many rural and immigrant Latino families, though fraught with danger due to a lack of standardized financing. Nearly 10% of Latino homeowners own mobile/manufactured homes.

- **Others**: Adjustable Rate Mortgages (ARMs), Stated Income Loans, and Balloon mortgages are other products that can be abused.
Many sales tactics can also be unethically applied.

- **Push tactics**: Aggressive marketing to consumers who likely did not seek out the offered product.

- **Independent Third-Party Brokers**: “Helpful” agents that become predatory if they exploit their cultural connection with vulnerable families.
- **Mortgage Brokers:** Though many provide an important service, unethical brokers steer families toward expensive products to earn a higher profit.

- **Steering:** There is ample evidence that Hispanic families are all too often steered toward expensive or inappropriate mortgage products.
Policy Implications
Two major bills competing in Congress
- The Responsible Lending Act (H.R. 1295)
- The Prohibit Predatory Lending Act (H.R. 1182)

Latino priorities for legislation
- Curb steering
- Improve access to affordable homeownership
- Hold mortgage brokers accountable
- Increase consumer protections
- Enhance enforcement
Recommendations
Increase consumer protections: Congress must pass strong, comprehensive legislation that increases protections for all consumers.

Stop Steering: Reduce incentives to place consumers in a more expensive loan. Also, hold mortgage brokers accountable by increasing state and federal oversight and standardizing licensing requirements.
• Improve access to mainstream market: Prime institutions must improve their performance with Hispanic borrowers. Also, support housing counseling.

• Provide a path to corrective action: Consumer protections must come with meaningful enforcement provisions.
As the Latino community continues to grow, Latinos’ ability to purchase a home and maintain that asset is important to all communities and the national economy.
NCLR Publications:

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