

## **Will the Foreclosure Crisis Consume the Latino Middle Class?**

Each month, as the rate of foreclosures rises, Americans ask if we have seen the worst of it. Studies indicate, however, that families will continue to lose their homes at record levels. Without a comprehensive strategy to prevent further deterioration, we will witness a complete dismantling of the middle class. Decision-makers must take aggressive action today to rein in the needless damage being done to American households.

### **Challenges**

**The foreclosure crisis is estimated to drain \$177 billion in Latino household wealth.**<sup>1</sup> The loss of a home is traumatic for all families, but it can be particularly devastating for Latino households. Latino families hold two-thirds of their wealth in home equity.<sup>2</sup> The loss of this investment impairs their chances to secure retirement, provide tuition for their children, and sustain the blow of an emergency.

**Experts estimate that 17% of Latino homeowners (more than one million people) are at imminent risk of losing their home or have already lost their home to foreclosure.**<sup>3</sup> In 2007, the Hispanic homeownership rate hit an all-time high of 49.7%, compared to 71.2% for Whites.<sup>4</sup> The crisis has abruptly reversed this boon, as one million households make a steep decline.

**Underemployment and unemployment are the most cited reasons why families cannot get foreclosure prevention assistance.** In a recent survey of housing counseling agencies, counselors reported that nearly 60% of loan modification requests were denied because of underemployment or unemployment.<sup>5</sup> During these hard times, families need a longer grace period than the three months currently given to find new employment. Experts estimate that 46% of unemployed workers have been out of work for six months or more.<sup>6</sup>

**More than 80% of housing counselors reported that they have secured fewer than ten modifications with principal forgiveness in 2009.** Based on an average of 393 foreclosure prevention clients served per housing counseling agency, this translates into, at best, 2% of their clients who have been able to secure a loan modification with principal reduction.

**Families suffer long-term effects after the loss of a home.** A recent study indicates that when a family goes through foreclosure, their relationships are strained between spouses, children, and beyond.<sup>7</sup> Children in particular are negatively affected physically, mentally, and academically.

### **Recommendations**

**Support the creation of an Office of the Homeowner Advocate under Home Affordable Modification program.** This office would focus on helping homeowners fight against wrongful

denials of loan modifications. It would provide a much needed internal advocate for families since there is currently no way for a client to file complaints against unfair dealings.

**Support mandatory loss mitigation.** Without mandatory loss mitigation, banks will only take the easiest, short-term route to turning a profit, including short sale or foreclosure, rather than help families work through their loan options. Banks should be required to exhaust a client's options to ensure that a family doesn't needlessly lose its home.

**Grant bankruptcy judges the ability to modify mortgages on principal residences.** This would allow judges to approve plans that make major reductions in home loan debts after homeowners prove that they have attempted to contact their lenders to no avail. This option is currently available for wealthy families that wish to apply for a second or vacation home, but not for families who need it for their principal residence.

**Invest in transition strategies for families who cannot hold on to their homes.** Congress should invest in programs that help homeowners transition out of their mortgage with less damage to their family, the neighborhood, and the investor. For example, one successful model allows owners to stay in their homes as renters and at times even earn their way back to an ownership position.

## Notes

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<sup>1</sup> Debbie Gruenstein Bocian, Wei Li, and Keith S. Ernst, *Foreclosures by Race and Ethnicity: The Demographics of a Crisis CRL Research Report* (Washington, DC: Center for Responsible Lending, 2010), <http://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-and-ethnicity.html> (accessed August 26, 2010).

<sup>2</sup> Rakesh Kochhar, *The Wealth of Hispanic Households: 1996 to 2002* (Washington, DC: Pew Hispanic Center, 2004), <http://pewhispanic.org/files/reports/34.pdf> (accessed September 1, 2010).

<sup>3</sup> Debbie Gruenstein Bocian, Wei Li, and Keith S. Ernst, *Foreclosures by Race and Ethnicity*.

<sup>4</sup> U.S. Census Bureau, "Housing Vacancies and Homeownership (CPS/HVS)," Washington, DC, <http://www.census.gov/hhes/www/housing/hvs/annual09/ann09ind.html> (accessed August 2010), Table 22.

<sup>5</sup> National Council of La Raza, *Saving Homes and Homeownership: Perspectives from Housing Counselors* (Washington DC: National Council of La Raza, 2010), [http://www.nclr.org/index.php/publications/saving\\_homes\\_and\\_homeownership\\_perspectives\\_from\\_housing\\_counselors](http://www.nclr.org/index.php/publications/saving_homes_and_homeownership_perspectives_from_housing_counselors) (accessed August 2010).

<sup>6</sup> Lawrence Mishel for the Economic Policy Institute, *Policy Responses to Long-Term Unemployment*, 111th Cong., 2nd sess., [http://epi.3cdn.net/3c3b354ccf472d1659\\_kdm6b9kde.pdf](http://epi.3cdn.net/3c3b354ccf472d1659_kdm6b9kde.pdf) (accessed August 2010).

<sup>7</sup> Janis Bowdler, Roberto Quercia, and David Andrew Smith, *The Foreclosure Generation: The Long-Term Impact of the Housing Crisis on Latino Children and Families* (Washington, DC: National Council of La Raza and Center for Community Capital (CCC) at the University of North Carolina, 2010), [http://www.nclr.org/index.php/publications/the\\_foreclosure\\_generation\\_the\\_long-term\\_impact\\_of\\_the\\_housing\\_crisis\\_on\\_latino\\_children\\_and](http://www.nclr.org/index.php/publications/the_foreclosure_generation_the_long-term_impact_of_the_housing_crisis_on_latino_children_and) (accessed August 2010).