

A stylized silhouette of a house with a gabled roof and a window with a grid pattern, set against a teal background.

Promoting and Maintaining Household Ownership among Latino Immigrants

Martha Argelia Martinez



UNIVERSITY OF
NOTRE DAME
Institute for Latino Studies

Esperanza is a faith based non-profit organization committed to serving and advocating for the underserved and marginalized to strengthen the Hispanic community. Esperanza's initiatives help develop communities, provide technical assistance to Latino faith and community-based organizations, advocate for HIV/AIDS awareness, and provide workforce development opportunities.



Promoting and Maintaining Household Ownership among Latino Immigrants

Martha Argelia Martinez



June 2007

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, without the written permission of the publisher, except where permitted by law.



The Institute for Latino Studies, in keeping with the distinctive mission, values, and traditions of the University of Notre Dame, promotes understanding and appreciation of the social, cultural, and religious life of US Latinos through advancing research, expanding knowledge, and strengthening community.

INSTITUTE *for*



Latino Studies

UNIVERSITY OF NOTRE DAME



Preface

It is with great pleasure that Esperanza presents the third in a series of studies that looks at housing trends as they relate to the Hispanic community and immigrants, *Promoting and Maintaining Household Ownership among Latino Immigrants*.

The studies of the prior two years examined homeownership rates in several major cities, the salience of Hispanic households in housing markets, barriers faced by Hispanics when purchasing a home, and the trends related to mortgage lending to Hispanics. These studies as well as information on our resources in English or Spanish are available through our website www.esperanza.us.

In 2005 there were approximately 11.7 million Hispanic households in the United States, of which 53 percent, or 6.2 million, were formed of individuals not born here. For this reason Esperanza has targeted this year's study on immigrants who are particularly underrepresented among homeowners.

We will concentrate on describing how new products available to Latino immigrants have helped to overcome the challenges and impediments unique to this population

and how potential homeowners can tap nontraditional mortgage products to create wealth through homeownership.

Esperanza is committed to providing information through this series of reports to the Hispanic community and lending institutions in order to promote our community's continued growth and vitality.

I would like to thank author Dr. Martha Martinez of DePaul University and Dr. Timothy Ready of the University of Notre Dame for their work on this timely and important study. Special thanks to our sponsors for making this report possible. Their financial support has served our efforts to help the Latino community to enjoy safer and more affordable housing.



The Reverend Luis Cortés, Jr.
President, Esperanza



The Institute for Latino Studies is pleased to partner with Esperanza USA once again to produce this most recent study in the series of reports on Hispanic housing in the United States.

This year's focus on the opportunities and challenges faced by Latino immigrant homebuyers is particularly timely given the phenomenal growth of the Latino immigrant population in recent years. As the report suggests, the spending power of this population represents an undervalued and underestimated potential market. It is our hope that the information contained in this report will help foster advances in lending practices that will be mutually beneficial to lending institutions and to Latino immigrants who dream of owning their own homes.

I commend Martha Martinez for the admirable job she has done to bring together a complex array of information into a very readable and useful document. I would like to thank Dr. Timothy Ready for his able assistance in the development of this report as well as the Institute's publications unit for editing the manuscript and preparing it for publication.



Gilberto Cárdenas
Julian Samora Chair in Latino Studies
Assistant Provost
Director, Institute for Latino Studies
University of Notre Dame

About the Researcher

Martha Argelia Martinez is an assistant professor of sociology at DePaul University and a Fellow of the Institute for Latino Studies at the University of Notre Dame. She obtained her PhD in sociology from Duke University in 2005. She specializes in economic sociology, with particular emphasis on the social consequences of economic policies and programs.



Before coming to DePaul she worked as a research associate for the Community Learning Centers at Monterrey Institute of Technology (ITESM) in Monterrey, Mexico. In this capacity she evaluated the impact of internet and computer access in rural communities. She has also written about globalization, entrepreneurship and social capital. She is currently working on a case for DePaul's Real Estate Center exploring the changes that the internet and telecommunication technologies are bringing to the work of real estate agents.



Introduction

The Latino population, and in particular Latino immigrants, has become a central part of the economic, social, and political life of the United States.¹ In 2005 Hispanic households represented 11 percent of total households in the United States, with an actual number of approximately 11.7 million. Immigrants represent a large portion of this population, with 53 percent (6.2 million) of Hispanic households being headed by individuals not born in this country.²

The growth of the Latino population, both native born and immigrants, has had a significant impact on the US housing market in the last few years, so much so that Latinos and immigrants represent a unique opportunity for growth in a market facing a slump. Between 1995 and 2005 the number of Hispanic owner-occupied homes increased by 3.1 million, a growth of 81 percent in a decade (Ready 2006, 9). Even with

this striking progress, Latinos still lag behind the national levels of homeownership. In 2005, of the total 11.7 million Hispanic households, only 48 percent owned their own homes. Homeownership levels for the general population were 67 percent in the same year.³

A more in-depth look at the Latino community shows that immigrants are particularly underrepresented among homeowners. US-born Latinos present a level of ownership of 56.1 percent, while immigrants only reach 44.9 percent.⁴ More than half (53 percent) of Hispanic households in the United States are headed by immigrants, a majority of whom have yet to reach the homeownership dream.

Within the immigrant population there are also variations in homeownership levels by legal status, with only 34 percent of noncitizen Hispanic householders being homeowners.

1 Throughout this report, we use the terms 'Latino' and 'Hispanic' interchangeably to describe people who live in the United States and share a connection, by ancestry, to Latin America.

2 Given their citizenship status, all Puerto Ricans are counted as native born in this calculation.

3 Unreferenced data were calculated using the American Community Survey 2005.

4 Ready (2006), using the 2005 Current Population Survey, reports a 62 percent level of homeownership among US-born Hispanics. The 56 percent was calculated using the 2005 American Community Survey.

In contrast, 63.5 percent of naturalized Hispanic citizens are homeowners. The significantly higher rate of homeownership among naturalized citizens is offset by the fact that only 37 percent of Hispanic immigrants have become citizens.

Undocumented workers represent a significant segment of the noncitizen Latino population. Using the 2005 Current Population Survey, the Pew Hispanic Center (2006) calculated that there were between 10.7 and 11.5 million unauthorized immigrants in the United States. Using 2004 data, the Center estimates that 57 percent of undocumented immigrants are Mexican, with an additional 24 percent coming from other Latin American countries (Passel 2005). In addition to harsh economic conditions and the constant risk of deportation, the lack of proper visa documentation and valid identification poses another challenge for those undocumented immigrants looking to own a home.

The data show that there is still a long way to go in the promotion of homeownership among Hispanics in general and Hispanic immigrants in particular. For any potential homeowner, and immigrants are no exception, perhaps the most important factor in achieving homeownership is the availability and affordability of mortgages. Homeownership is almost impossible without access to adequate and affordable financial services. Hispanic immigrants, many of whom belong to the ranks of low- and medium-income households,

face several obstacles to accessing credit. Besides the already mentioned lack of identification for undocumented immigrants, other factors affecting access to mortgage loans among Hispanic immigrants include a low or no credit score, the language barrier, lack of down payments, and expensive housing markets.

Fortunately for Hispanic immigrants, financial institutions and government agencies have created innovative lending products and programs designed to fulfill their needs. In addition, nontraditional lending products like subprime lending, adjustable-rate mortgages (ARMs), and alternative documentation (Alt-A) loans, although not specifically designed to provide Hispanic immigrants access to credit, have nevertheless offered them new homeownership opportunities.

The present report will concentrate on describing how the innovative products available to Latino immigrants have helped or will help them to overcome challenges unique to this population and how immigrants can tap nontraditional mortgage products to become homeowners. However, opportunities do not come without a risk. The penultimate section will analyze the risks and costs associated with these new opportunities, in particular the risks of foreclosure and predatory lending.

Designing Banking For Immigrant Latinos

This section will explore the challenges faced by Latino immigrants in obtaining credit and the most innovative solutions created by both private and public organizations specifically to deal with them. These diverse challenges include the lack of social security numbers, low or nonexistent credit scores, and the language barrier.

The Challenge of Identification

Immigrants, including undocumented immigrants, constitute a potential and growing market for real estate professionals and banking institutions in an environment in which other ethnic groups, particularly whites, are not growing as a market. A study performed for the National Association of Hispanic

Real Estate Professionals calculated, using 2000 Census data, that undocumented Latino immigrants constitute a market of 44 billion dollars in potential mortgage originations (Paral 2004, 21). More recent estimates point to 65 billion dollars (interview with Simpser, 2007).

The lack of a social security number and a proper photo ID document poses a particular difficulty for the undocumented Latino community. Section 326 of the Patriot Act of 2001 requires banks to document and verify the identity of account holders, which is a problem for undocumented immigrants looking for a loan. However, new regulations aimed at providing guidelines to enact this legislation have opened the door for



undocumented immigrants to use alternative identification documents such as the Individual Taxpayer Identification Number (ITIN) and the Matrícula Consular.

ITIN and Matrícula Consular as Identification Forms

An ITIN is a unique tax identification number issued by the Internal Revenue Service (IRS) to foreign nationals who are not eligible to receive a social security number but are required to file a tax return. Because they are designed to include foreign investors who may not be living in the United States, ITIN applications do not require documents proving immigration status, so ITINs can be used by undocumented workers to pay their taxes (IRS 2007).

The IRS specifically states that the ITIN was only designed for tax payment purposes (IRS 2007). However, in 2002 the Department of the Treasury, along with other federal regulatory agencies, started pushing banks to require unique identification numbers and government-approved picture IDs to open any kind of account for foreign nationals. The rules explicitly mention the ITIN as a valid alternative to social security numbers and also allow banks to accept not only passports but other foreign-government-issued photo IDs. In

particular, banks are allowed to accept the Matrícula Consular, an identification card issued first by Mexican consulates in the United States to identify Mexican citizens (Department of the Treasury 2002, 14). These recommendations became law on May 9, 2003 (Bruno and Storrs 2005, 3). Neither the Patriot Act nor any regulations by the Department of the Treasury require banks to inquire about the immigration status of individuals opening bank accounts (USA Patriot Act 2001, 118–22; Department of the Treasury 2002).

The Matrícula Consular is mainly seen as a document offered to Mexican nationals, but other countries including Argentina (Argentinean Consulate in Los Angeles 2007) Colombia (Telemundo47 2005), Guatemala, Ecuador, and Brazil (Bruno and Storrs 2005, 1) offer their own versions of the Matrícula Consular to their nationals. The success of the Mexican initiative has motivated countries such as Poland, Peru, El Salvador, and Honduras to plan to offer similar documents in the near future (Bruno and Storrs 2005, 1).

In the last few years using ITINs accompanied by the Matrícula Consular or other similar documents to open savings and checking accounts has become standard procedure for many banking institutions in areas of high immigration

density. In 2005 approximately 30,000 out of roughly 88,000 total bank offices across the United States accepted the Matrícula Consular and/or ITIN numbers to open bank accounts (Gallagher 2005, 4). This practice is common to both small regional banks and bigger national financial institutions. For example, Wells Fargo started accepting the Matrícula Consular (and therefore ITIN numbers) for checking and savings accounts in 2001. By 2005 the company had 525,000 accounts of this type, representing 6 percent of the company's total accounts at the time (Grow 2005).

ITIN Mortgage Loans

There are no federal or state rules or regulations regarding the use of ITINs and documents like the Matrícula Consular to grant loans; each individual banking or credit institution is free to create its own policies regarding the underwriting rules for lending money and setting up the terms for the loans, including interest rates. A few regional banks and credit unions have created programs to provide loans for individuals without social security numbers, usually responding to an immediate need or request from their communities. Among these institutions are Jefferson Bank (San Antonio), Latino Community and Credit Union (Durham, NC), Mitchell Bank (Milwaukee, WI), TexasBank (Forth Worth, Texas), and Second Federal Savings Bank and First Bank (Chicago). The following paragraphs provide just two examples of the many banking institutions accepting ITIN loans.

Second Federal Savings Bank, Chicago: This bank was one of the pioneers in the use of ITINs. Bank officers initiated the practice in 1999, when it was discovered that one of their borrowers had provided a nonexistent social security number. Faced with the choice of foreclosing, the bank decided to accept the ITIN as an alternative form of identification. This particular incident occurred before the bank actually offered checking and savings accounts with ITINs. Since the Department of the Treasury officially accepted the ITIN and the Matrícula Consular as valid forms of identification, the bank has expanded the ITIN program, which now covers approximately 850 families for a total value of 100 million dollars in loans (interview with Brophy, 2007).

TexasBank, Forth Worth: This regional bank launched its Programa Libertad in 2000. Designed to provide ITIN mortgage loans, Programa Libertad was created to respond to the needs of a real estate agent wishing to help clients without social security numbers. In 2005 the program began accepting the Matrícula Consular and started working on expanding its Spanish-service capabilities. The institution offers a 15-year fixed-rate mortgage, requires a 10 percent down payment and, depending on borrower characteristics, will accept a debt to income ratio of 60 percent. In 2005 they had 600 loans on portfolio worth 25 million dollars.

Limits to ITIN Mortgage Loans

Institutions that offer ITIN loans agree that they are very profitable and safe. For example, in four years Texas Bank only registered three foreclosures, while Second Federal Savings reports a default rate of only 1 percent since 1999 (interview with Brophy, 2007). Despite this positive performance, ITIN loans have not become a normal part of banking operations in the United States. The regional nature and small size of the institutions offering ITIN loans limit the number of people who can have access to their programs. Large national banks and financial institutions such as Wells Fargo, Citibank, Chase, Fannie Mae, Freddie Mac, and the like do not offer ITIN loans. Around 2005 there was a press release announcing that Wells Fargo was considering a pilot ITIN mortgage program (HispanicPR Wire 2005), but no more information about it can be found since then. No other large banking institution has made any similar announcements.

One possible reason for the limited use of ITIN mortgage loans is fear of political backlash. Some banks that have tried to create innovative lending products to respond to the needs of the undocumented immigrant population face harsh criticism and even threats from anti-immigration groups. Even though assisting an undocumented immigrant to obtain a mortgage remains perfectly legal, recent pressure from anti-immigrant groups and politicians to change the law in this regard has decreased incentives for banks to get involved with this growing market (Grow 2005).

Anti-Immigration Protests: The Casa Mia Case

New South Federal Savings Bank, a Birmingham, Alabama, corporation, launched a mortgage product called Casa Mia specifically designed to service the recently arrived Hispanic population in the area. Casa Mia offered 20-year fixed-rate mortgages to applicants with two years of residency, stable employment, and ITIN numbers. Shortly after announcing their new program, the bank started receiving threatening emails and phone calls. In addition, the bank received a letter threatening legal actions by the anti-immigration group Friends of Immigration Law Enforcement (FILE). Given

this response, the bank suspended the program to study possible liability. The argument used by the anti-immigration groups was that providing ITIN mortgage loans helped undocumented immigrants remain in the country (Grow 2005). Martha Walters Pierce, senior vice-president and CRA officer, explained that the program has been completely cancelled. The bank is waiting to see if Congress creates a new immigration law to decide whether or not to offer ITIN loan products again.

The most recent and probably most significant outburst of negative public opinion occurred in February 2007 when the *Wall Street Journal* brought to national attention that the Bank of America was running a pilot program in 51 of its Los Angeles County branches, offering credit cards to immigrants without a social security number. Given that Bank of America did not advertise the pilot program and instead relied on word of mouth for its diffusion, the *WSJ* article constituted an “outing” of the program at the national level (Jordan and Bauerlein 2007). After that, the umbrella anti-immigration organization FireCoalition organized protests outside branches of the bank in 12 different states (FireCoalition 2007). Bank of America responded to criticisms with an open editorial in the *WSJ* by its CEO, Kenneth Lewis, saying that the bank was going to keep offering this product. The bank’s rationale was that they were in compliance with the Patriot Act and that ITIN products helped fight terrorism by bringing certain transactions to mainstream banking. However, Lewis denied that the credit card was aimed at undocumented workers (Stempel 2007). As of April 2007, the bank had not announced any change of policy. Because of the public actions of anti-immigration groups, banks that provide ITIN lending services are vulnerable to public relations incidents that may damage their image and the value of their brands. Larger national banks and other financial institutions like Fannie Mae and Freddie Mac are more exposed to public opinion. Not surprisingly, ITIN lending products are mostly used by small regional banks and credit unions.

The Problem of the Credit Score

A second challenge faced by many immigrants is their low or nonexistent credit scores. For mortgages and other kinds of loans, a credit score is the number lenders use to calculate how likely an individual is to default or make payments, and they use this information to decide whether or not to give a loan and to determine the interest rate level offered. The credit score is based on prior experiences with credit and loans, and it takes into account the number and length of credit accounts and the payment history of those accounts, among other factors. (For more information on FICO, the most common credit score, see website http://www.myfico.com/Downloads/Files/myFICO_CFA%20pamphlet.pdf.) Many banking institutions will not offer a loan to a solvent and even affluent potential borrower if there is no previous history of credit.

For Latino immigrants, the problem of the credit score goes deeper than just the lack of previous debt. Latin American countries have historically not provided banking services of any kind to their low-income population, many of whom migrate to the United States (Paulson et al. 2006, 18). Once in the United States, many immigrants get immersed into a “cash” economy that works separately from the rest of the economy. Their history in their own country translates into lower levels of bank access in their new country. Banks began using ITINs and the Matrícula Consular in order to decrease the tendency of Latino immigrants, particularly the undocumented, to be unbanked. Despite this effort, 40 percent of Mexicans and

44 percent of Salvadorians, the two largest Latino immigrant populations, have neither savings nor checking accounts (Paulson et al. 2006, 15–16).

Without savings and checking accounts, immigrants lack the means to demonstrate their income or even to efficiently save money for a down payment; thus they cannot show that they are worthy of credit. The lack of credit, savings and checking accounts creates a vicious circle. Many individuals get their first credit card offers from the banking institutions where they keep their money. Banks often require at least a two-year relationship with a consumer before they will grant a first credit card, while other institutions require a credit history in order to open a checking account. By the same token, immigrants do not open checking or savings accounts because they believe that they may not get credit in the near future (Paulson et al. 2006, 18).

Solutions to the Credit Score Problem

Banking institutions interested in catering to the Latino and other immigrant populations have developed two innovative alternatives to deal with the credit score problem: granting small, secure lines of credit and establishing alternative underwriting rules.

Establishing Credit with Small Loans: One solution to the credit score problem is to provide consumer loan products specifically designed to build credit history. These loans tend to be small, between 500 and 10,000 dollars, and they are secured by deposits on savings accounts or by assets like cars. Typically, but not exclusively, these loans are provided by regional banks and credit unions that cater specifically to the immigrant community. Some of the institutions that provide this type of credit-building opportunities specifically for Latino immigrants are El Banco de Nuestra Comunidad (Atlanta, GA), Latino Community Credit Union (Durham, NC), Mitchell Bank (Milwaukee, WI), and Neighborhood Credit Union (Dallas, TX). The majority of these organizations accept borrowers with ITIN numbers in their programs (Appleseed Center 2006, 35).

Alternative Underwriting Guidelines: A second solution to the credit score problem is the creation, standardization, and automation of alternative underwriting guidelines that do not take into account credit scores. As part of the Community Development Act of 1977 the Federal Reserve System evaluates banks and other financial institutions on their contribution to satisfying the financial needs of their communities. These evaluations are used as a factor to decide if financial institutions should be allowed to open more branches or participate in particular financial transactions. This evaluation system gives banking and financial institutions an incentive to provide housing and services to low- or moderate-income individuals and to create innovative lending services (e-CFR 2007). Therefore, financial institutions such as Wells Fargo and secondary market lenders such as Fannie Mae, Freddie Mac, and Ginnie Mae have alternative underwriting guidelines that, for example, do not require a minimum two years of employment, don't penalize borrowers for job changes, and allow for rental income and higher income to debt ratios, as well as small down payments. However, no cash income can be considered, and borrowers are required to enroll for financial education, which is not always available in Spanish (Burnett et al. 2006, iii–vi).

Disadvantages of Low- and Medium-Income Underwriting Systems

In the particular case of the secondary lenders mentioned above, although these alternative underwriting systems have been established, they are not automated (interview with Simpson, 2007). Credit score-based underwriting systems have been automated for years. The originator of a loan enters specific information into a computer program and is instantly provided with a decision of whether or not to grant the loan plus the interest rate. An automated system saves money and time for originators, as loan officers are no longer required to manually underwrite every loan. By not offering an automated system, secondary market lenders decrease the incentives for brokers and banks to work with the alternative guidelines. Another important disadvantage of these underwriting systems is that even when no credit score is required, they still fail to take into account particular socioeconomic characteristics of Hispanic immigrants. Specifically, the rules do not acknowledge cash income, which is an important part of the Latino immigrant's life.

Underwriting for Latinos

While a few banks and credit unions have created their own alternative guidelines to grant loans to Latino immigrants, both with social security and ITIN numbers, many more institutions are prevented from penetrating the no-credit-score population and entering the ITIN market because of high levels of uncertainty in developing new products and the lack of specific standardized guidelines to deal with the Latino community (interview with Brophy, 2007). This uncertainty comes partly from the lack of a secondary market for ITIN loans. Government sponsored enterprises (GSEs) like Freddie Mac and Fannie Mae, as well as other secondary lenders, usually establish clear guidelines about what type of loans they are willing to buy and the interest rates assigned to them according to their levels of risks. These guidelines then become industry standards for underwriting rules and are automated for banks and brokers to use (Cummings and DiPasquale 2007). However, GSEs do not accept ITIN loans, so they are not a source of guidelines and information for banks and other investors. Two for-profit companies, the Hispanic National Mortgage Association (HNMA), the first secondary market private lender to accept ITIN loans, and Mortgage Guaranty Insurance Corporation (MGIC), a mortgage insurance corporation that insures ITIN loans, have developed and distributed underwriting guidelines taking into account the specific needs and characteristics of the Latino community and in particular of undocumented immigrants.

MGIC: This company specializes in mortgage insurance and, through its Emerging Markets Division, attempts to serve the needs of low-income families. MGIC has a program called Building a Life in America aimed at the immigrant community. The program allows for both social security and ITIN loans, requires that borrowers receive Homebuyer Education, allows for very small down payments (the lesser of 500 dollars or 1 percent of property), and accepts 16 different nontraditional credit references. The availability of mortgage insurance reduces uncertainty for banks by offering them clear underwriting guidelines and a way to safeguard their investment (MGIC 2007). However, in the case of MGIC, the alternative underwriting is standardized but not automated. The underwriting of a specific loan has to be performed manually by the lender following the guidelines of MGIC, which leads to lower efficiency and increases paper work.⁵

⁵ Genworth Financial is another company that provides mortgage insurance for nontraditional credit and ITIN loans.

MGIC Alternative Underwriting Guidelines for Fixed-Rate Loans and 5-year ARMs

- ITIN and Government Issue Photo ID
- Loan to Value Ratio (LTV) 97 percent
- Combined Loan to Value Ratio (CLTV) 105 percent
- Proof of two years steady employment
- Two years of tax returns
- Two most recent pay stubs (covering a minimum of 30 days with a year-to-date income)
- Undocumented cash income is acceptable as long as it does not exceed the lesser of \$1,200 or 25 percent of total documented monthly income (documentation of employment required)
- Border income may be allowed up to 30 percent of total qualifying income (documentation required)
- Up to 75 percent of rental income is recognized (documentation required)
- Lesser of \$500 or 1 percent verified from own funds
- Seller subsidized gifts/grants not eligible
- Secured gifts, grants and loans must be included in CLTV
- Providers of secure gifts, grants and loans must be preapproved by MGIC
- Total Debt Ratio: 41 percent
- Nontraditional Credit References: Housing payments, installment loan payments (auto loan), utility payments, telephone and cable payments, medical insurance payments, life insurance policy payments, lease payments related to durable goods, household (renter's) insurance payments, local store payments, remittances to family members in country of origin, proof of patterned savings from depository institutions with increasing balance, school tuition payments, ongoing child care payments, payments on loan obtained from an individual, and rent-to-own contracts

Source: MGIC (2007).

HNMA: After years of research, this for-profit secondary market corporation, created the Hispanic Automated Underwriting System (HAUS), which takes into account the particular cultural and socioeconomic situation of Latino immigrants. Although the specific variables used in this system are proprietary information and only made available to their client brokers and banks, it is public knowledge that the underwriting guidelines considered in the loan application include secondary cash income sources, income from different jobs, and income from multiple house members, which are routine facts of life for Latino immigrants. The acceptance of cash income, in particular, is not part of other underwriting systems directed toward the low- and medium-income population.

HAUS, by being both standardized and automated, is designed to help originators (banks, credit unions, brokers) increase the efficiency of their underwriting procedures and therefore become capable of offering more services to the Latino community. This system does include the underwriting of ITIN loans.

The Language Barrier

A further challenge to accessing the home mortgage market is the language barrier. According to the 2005 American Community Survey, 48.5 percent of Hispanic immigrants, 15.4 percent of Puerto Ricans, and 7.3 percent of US-born Latinos report that they do not speak English well or do not speak it

at all. Fluency in English affects the likelihood that individuals will have access to financial services. Using the Survey of Income and Program Participation (SIPP) data, a study has shown that immigrants who speak English at home and/or come from countries where English is the official language are more likely to have checking and savings accounts than immigrants who do not speak English, controlling for other variables. The advantage of using English is so significant that English-speaking immigrants are equally likely as native-born Americans to have checking and savings accounts (Paulson et al. 2006, 17).

In their attempts to attract the growing Latino immigrant market, many banks have created websites and ATM services in Spanish. While these efforts may attract a few Spanish-speaking Latinos to open bank accounts, in order to drastically decrease the percentage of unbanked individuals in the Spanish-speaking population banks need representatives fluent in Spanish and capable of developing personal relationships based on trust with both individuals and communities (interview with Simpser, 2007; interview with Brophy, 2007). Mainstream institutions may find it difficult to recruit the right personnel and train them to create the conditions to attract Latino immigrants to their services. One possible solution to this problem is the development of joint ventures and programs between mainstream financial institutions and Hispanic businesses and organizations.

ILUMINA

Increasing mortgage lending among Latinos requires deep knowledge of the needs and characteristics of the population, accompanied by the infrastructure to offer a wide arrange of financial products. One strategy is the creation of joint ventures between mainstream financial institutions and organizations that deal directly with the Latino market. A recent example is the alliance between Wells Fargo and HNMA. These organizations created the joint venture ILUMINA, a company dedicated to retail mortgage lending for the Hispanic market. The idea behind

ILUMINA is to combine the financial strength and diverse products offered by Wells Fargo with the cultural sensitivity, Spanish-language materials, and in-culture dedicated processing teams developed by HNMA. ILUMINA currently has offices in Los Angeles, San Bernardino, Riverside, Ventura, and San Diego counties in the state of California. Offices in Fontana (CA), Riverside (CA), and Phoenix (AZ) will be opened during 2007 (HNMA 2007). Unfortunately, the new joint venture does not offer ITIN loans.

The Cost of ITIN and Alternative Underwriting Loans

Although the strategies, products, and policies described in the previous section have increased or will increase the access of both documented and undocumented Latino immigrants to home mortgages, this does not necessarily make home loans more affordable for immigrants. In general, ITIN loans tend to be more expensive than loans with the same characteristics but obtained using a Social Security Number. For example, the 15-year fixed-rate loan offered by TexasBank in 2005 charged an interest rate of 9.5 percent, with an option to reduce it to 8.5 percent after two years of good payments (Appleseed Center 2006). The overnight prime for a 30-year fixed-rate mortgage at the time was 5.78 percent (Inman News 2005). Other ITIN programs offered by Jefferson Bank, the Latino Community Credit Union, and Mitchell Bank were at least 2 percentage points above the prime rate at the time (Appleseed Center 2006).

Moreover, borrowers who use alternative underwriting guidelines are required in many cases to purchase mortgage insurance, which increases the cost of their loans. Manually underwritten loans are also more expensive because of the labor and knowledge required for the underwriting process. The following sections of this report will explore the dynamics of loan pricing and the steps that have been taken to improve the affordability of these loans.

Cost Dynamics for Alternative Underwriting and ITIN loans

In the regular mortgage market banks typically underwrite loans and then sell them to wholesalers who package them and securitize them for investors to buy. Medium and small regional banks that offer ITIN loans must keep these loans as part of their own portfolios (interview with Simpser, 2007; interview with Brophy, 2007). Keeping loans on portfolio means that banks require higher capitalization, which limits their ability to grant more loans or take advantage of other business opportunities (interview with Brophy, 2007). So banks with a portfolio of ITIN loans compensate the opportunity costs created by higher capitalization needs by making ITIN loans more expensive than other loans with equivalent risk levels that are traded in the secondary market. There are two ways in which ITIN and nontraditional credit loans can be made more affordable: the growth of a second-

ary market and the creation of partnerships among government agencies, banks, and community organizations.

Secondary Markets for ITIN and Nontraditional Credit Loans

A secondary market in the mortgage industry is formed when banking institutions underwrite loans and sell them to wholesale lenders that then group or “pool” them for investors. The wholesale lenders constitute a secondary market. Competition among secondary lenders for low-risk investments usually ensures the best rates for consumers. Traditional institutions buying loans in the secondary market (firms like Freddie Mac and Fannie Mae and many for-profit organizations) do not accept ITIN loans (Paulson et al. 2007, 47).

In the last year three companies have announced that they will start or have started to buy ITIN loans from banks, credit unions, brokers, and other originators. These companies are HNMA, LAT Wholesale Capital, and First Consolidated Mortgage Company. Although the fact that these companies are buying loans from banks will somewhat increase the affordability of mortgage loans for Latino immigrants, they represent a secondary market that is only just emerging. Three companies buying loans from brokers and banks do not create a highly competitive market that would translate into the smallest possible interest rates and fees for Latino borrowers. The interest rates offered by these institutions are 1 and 2 percent more expensive than the traditional compliance loans in the prime market (interview with Simpser, 2007; interview with Dillon, 2007), but less expensive than the 3 percent above prime which is the best rate available in the subprime market (Kristofiak 2007).

ITIN and alternative underwriting loans in these programs are a very safe investment for banks and other financial institutions. Second Federal Savings Bank in Illinois, one of the pioneer regional banks in the use of ITIN loans and alternative underwriting guidelines, provides the best testimony for the safety of these loans. Since it started offering ITIN mortgage loans in 1999, the default rate has been less than 1 percent (interview with Brophy, 2007). Similarly, HNMA reports a default rate of less than 1 percent (interview with Simpser, 2007). The higher cost of the loans is not related to their risk but to

the lack of a more vital secondary market and the fact that most immigrants have very small or no down payments and are therefore required to get mortgage insurance regardless of the actual risk of default. George Cooper, director of Emerging Markets at MGIC, explains that ITIN mortgages perform like “A” type credit borrowers, and because they are so dependable they qualify for favorable mortgage insurance rates (Harney 2007). The need for mortgage insurance and the slightly higher interest rates for these loans put pressure on a population with smaller than average incomes, particularly for those living in areas of high real estate prices (interview with Brophy, 2007). Undocumented immigrants using ITIN loans are mostly ineligible for government assistance to make

housing more affordable through down payment assistance or subsidized interest rates, with the exception of two programs that are the product of an alliance among banking institutions, government agencies, and community organizations in the Midwest. These programs will be discussed below.

New Alliances to Increase Immigrant Homeownership

A comprehensive reform that would ensure access to and affordability of credit for both documented and undocumented immigrants requires solutions that bring together government agencies, banking institutions, and community organizations. One recent example of this type of cooperation was the New

Secondary Market Organizations Buying ITIN Loans

HNMA: In a joint venture with Deutsche Bank, HNMA, started buying ITIN loans from originators in October 2006. By March 2007 HNMA had bought a total of approximately 2,000 such loans. In addition, the company buys loans that use the alternative credit worthiness assessment system described previously in this report. The company buys loans with no down payment for both the ITIN and alternative credit products but requires mortgage insurance paid by the borrower. Interest rates for loans bought by HNMA are between 1 and 2 points higher than conventional conforming loans in the prime market. This is the only company that actually takes the loans and transforms them into securities for investors (interview with Simpser, 2007).

First Consolidated Mortgage: On December 8, 2006, this company, in association with the Hispanic Financial Group, announced the creation of three different mortgage loan products accepting ITIN numbers in place of social security numbers. The products allow for the possibility of no down

payment but also require mortgage insurance. In addition to the three new programs, First Consolidated offers products created by HNMA to affiliated brokers, including HAUS. Loans bought by First Consolidate Mortgage are resold to HNMA (First Consolidated Mortgage Company 2006).

LAT Wholesale Capital: This organization announced the creation of a lending program in its wholesale division for undocumented workers using the ITIN and the Matrícula Consular. LAT Wholesale Capital will buy loans from originators all over the country, particularly the 14,000 members of the National Association of Hispanic Real Estate Professionals (Hispanic PRWire, 2006a). The program will require mortgage insurance, and interest rates will be between 1 and 2 points higher than regular prime loans. The company is now in the process of buying existing portfolio loans, aggregating them, and looking for a company to provide an investment rating for the product (interview with Dillon, 2007).

Alliance Task Force. Formed in May 2003 as a result of the efforts of the Mexican Consulate in Chicago and the Chicago branch of the Federal Deposit Insurance Corporation (FDIC), the alliance brought 34 banks together with community-based organizations, federal bank regulatory agencies, government agencies, and representatives from secondary market and private mortgage companies. The banking institution members of the task force were mostly regional banks from Illinois, Wisconsin, and Indiana. The main goal of this task force was to bring unbanked Latinos into the financial system, and one of the working groups concentrated on the creation of mortgage products for potential homeowners who pay taxes using ITIN numbers (FDIC 2007). As part of the New Alliance Task Force efforts, two programs were created to address the issues of access to and affordability of mortgage loans, one in Wisconsin and another in Illinois.

The WHEDA Program: The first program was created by the Wisconsin Housing and Economic Development Authority (WHEDA) and included the collaboration of 25 different banks (among them Associated Bank, Green Bay, Guaranty Bank, Grown Deer, and Mitchell Bank, Milwaukee). The program offered ITIN borrowers government-subsidized loans with lower-than-market interest rates and no down payments, which provided undocumented immigrants with the same incentives as those of other low- and moderate-income populations. Legislators were opposed to the program, however, because they saw it as promoting illegal immigration, and after a little more than a year and 261 loans under this program, the Wisconsin state legislature passed a bill in December 2005 prohibiting WHEDA from using government funding to subsidize ITIN loans. The prohibition did not mean that banks could not provide the loans, just that the government would not buy them or subsidize them. At the time that the program was cancelled, there was no secondary market for ITIN loans. Fortunately, the situation was changed with the intervention of HNMA and two other financial institutions, LAT Wholesale Capital and First Consolidated Mortgage Company, which are now acting as secondary market lenders for ITIN loans (Batog 2006).

Second Federal Savings and a New Philosophy of Banking

The Second Federal Savings Bank was born in Chicago in the late nineteenth century with the specific purpose of serving the mostly European immigrant community. When these initial immigrants moved on, the bank stayed to provide service to a new wave of Latino workers arriving in Chicago. Second Federal Savings has become an example of the flexibility and community orientation required to increase and maintain homeownership levels among the Latino community. The bank is one of the few institutions that offer prime rates for both ITIN and alternative credit loans and exact no penalty for not having a social security number. The bank also absorbs the cost of mortgage insurance for many buyers and goes a step beyond offering alternative underwriting: Recognizing the vulnerable economic position of Latino immigrants who depend on contingent work, Second Federal Savings tries to provide personalized service to minimize losses for all parties involved and to avoid foreclosures, which are expensive for both the bank and the borrower. For example, in a case where a borrower cannot continue paying for the mortgage, the bank may transfer the loan to a different family member or even give the borrower his or her money back.

Opportunity I Loans: A second program resulting from New Alliance Task Force efforts was developed in December 2005 in Illinois. The Illinois Housing Development Authority (IHDA) created the Opportunity I Loan program to help low-income individuals without credit history. Borrowers in this program are allowed to use ITIN numbers in their applications and receive below-market interest rates and low down payments or down payment assistance (Office of the Governor of Illinois 2005). The program does not use tax dollars for subsidies but instead relies on state-issued tax-exempt bonds that are allowed by the IRS. In addition to using alternative underwriting policies similar to the ones mentioned earlier in this report, the program requires that applicants undergo

financial education to ensure understanding of the loans and increase the probabilities of proper repayment (IHDA 2005). The program is currently offered by 6 banks in 212 locations in Chicago and other Illinois communities (IHDA 2007), among them Second Federal Savings Bank mentioned above.⁶ The success of the New Alliance Task Force in attracting Latino immigrants to the banking system has spurred similar partnerships to help immigrants grow assets and enter mainstream banking in Texas (Federal Reserve Bank of Dallas 2005), Charlotte/Raleigh, Boston, Kansas City, and Los Angeles (Government Innovators Network 2006).

Although the start of a secondary market and the creation of government programs constitute steps to help Latino

6 Other banks participating in the Opportunity I Loans program include First Bank, Hemlock Federal Bank for Savings, LHI Mortgage, Mid-America Mortgage Corp, and Second Federal Savings Bank.

immigrants own homes, the programs lack universal availability. They also assume that the only difference between minority and other borrowers is the size of their paycheck and their banking practices. Matthew Brophy, regional manager of Second Federal Savings Bank, explains that the Latino immigrant community, both documented and undocumented, suffers from harsh living conditions and high levels of economic uncertainty. Latino immigrants face a higher than average level of job instability, and because of the contingent nature of most of their employment they are more vulnerable to personal crisis. If an immigrant becomes sick and can't work, he or she has a high chance of not getting paid. Undocumented workers also face the very real possibility of sudden deportation, in which case they would lose their investment. Adequate safety nets to protect hard-working individuals in the event of illness, deportation, or other life crises are particularly critical for the Latino immigrant population.

Other Loan Options and the Latino Community

In addition to the options for mortgage loans mentioned so far in this report, Latinos have used other alternative and innovative loan products available in the US market that are more widely available. Latino immigrants have been using subprime and nontraditional mortgage products like ARMs or Alt-A loans in order to get access to loans big enough to afford houses in expensive markets. The present section of this report will analyze the opportunities and risks created by both subprime and alternative mortgage products and their role in the maintenance of homeownership in the Latino community.⁷

Subprime Loan Market

The subprime market was created to tap an underserved population of individuals with poor credit histories. The subprime market accepts individuals with credit scores in the low 600s or below. Credit scores between 620 and 850 are considered part of the prime market, although the higher the score the lower the interest rate will be even in prime (Gramlich 2004). Some

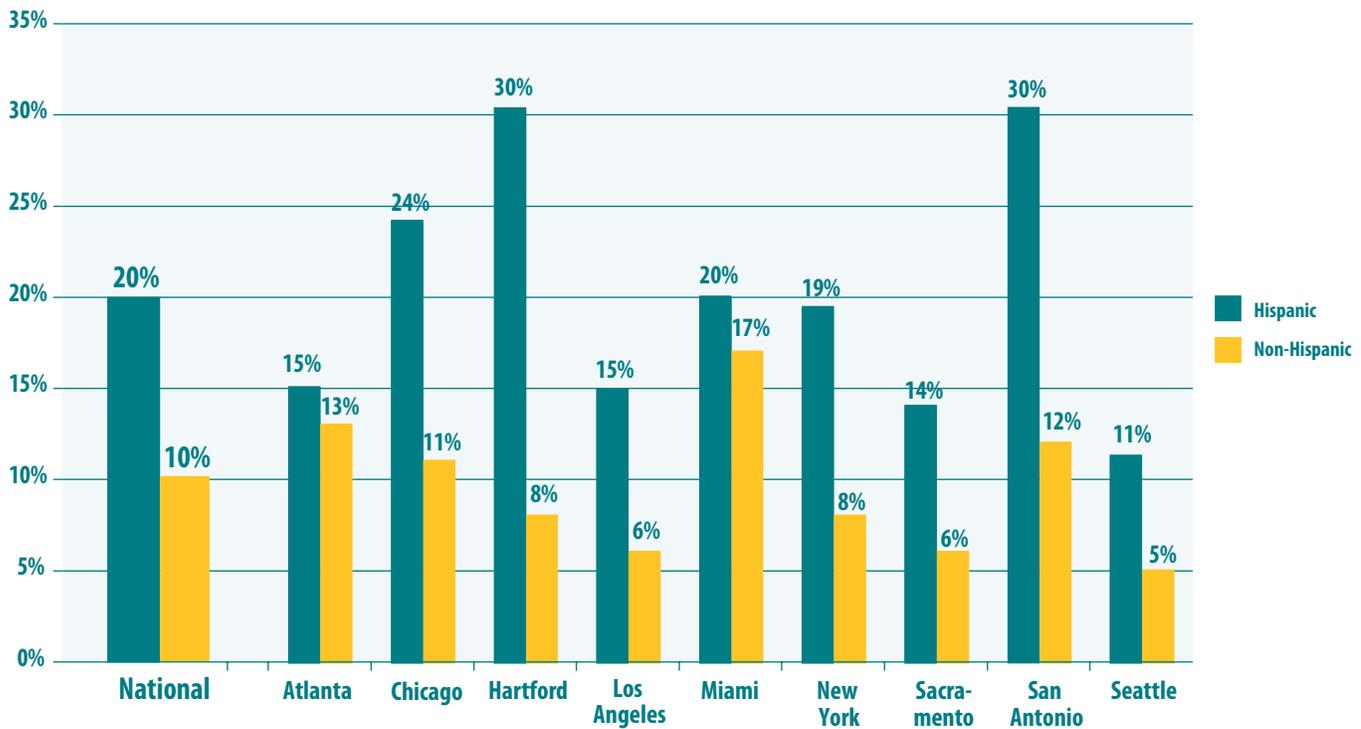
7 Land contracts (usually available through sale by owner) and rent-to-own arrangements are other alternatives to conventional mortgages, but they are rarely mentioned in the literature on the Latino housing market so are probably infrequently used by Latino homebuyers.

subprime lenders also provide loans to individuals without a social security number or a way to prove income. Because of the characteristics of the borrowers, subprime loans are considered more risky. The lender or investor requires a higher interest rate in order to be motivated to buy subprime loans and get compensated for that higher risk.

Experts calculate that between 1.5 and 4 percent points above prime constitutes a fair compensation for the extra risk in the subprime market (Muolo 1996; Goldstein 1999). However, 42 percent of subprime loans for site-built houses granted in 2004 charged interest rates 4 percent or more points above the prime rate, and 15 percent of them charged 5 percent or more (Avery et al. 2005, 364–65). Although there is some controversy about how high interest rates should be in order to qualify as subprime, government data and other studies consider a loan subprime if it charges 3 percent points or more above the prime rate (Kristofiak 2007; Avery et al. 2005, 349–50).

The importance of subprime loans has been increasing in the mortgage industry. From 1998 to 2006 the subprime percentage of mortgage originations grew from 10 to 23 percent (Schloemer et al. 2006, 7). Data from the 2004 Home

Subprime Loans as a Percentage of All First Mortgages, Hispanic and Non-Hispanic Borrowers, 2004



Mortgage Disclosure Act (HMDA) state that 11.5 percent of conventional first-lien⁸ loans for site-built houses and 57 percent of manufactured houses were three points or more above the conventional prime rate (Avery et al. 2005, 370). According to the Center for Responsible Lending (2007), the subprime market granted 570,585 loans to Latinos in 2005, of which 72,981 were granted to first-time homeowners.

ARMs and Other Nontraditional Mortgage Products

The most traditional and safe mortgage product is the 30-year fixed-rate mortgage. However, many potential homeowners are not able to afford a house, or the house they would like, with a fixed-rate mortgage, given their actual levels of income. Other potential borrowers may also have variable incomes that can't be accurately reflected in their monthly pay stubs, which would lead to the underestimation of their buying capacity. In order to offer flexibility to these borrowers, the mortgage loan industry created a set of nontraditional products that were originally targeted toward high-income households but in recent years have been used more for low- and medium-income households. These five products are Option ARMs,

⁸ First lien means the principal loan for a mortgage, which excludes loans used instead of a down payment.

Interest-Only Loans, Hybrid ARMs, No Money Down, and Alt-A loans (Chiu 2006, 3).

Option ARMs: Loans with a temporary fixed rate that after a few months become adjustable according to market changes and the loan provisions. The advantage of the Option ARM is that it provides four options for payment every month: the equivalent of a 30-year loan term, the equivalent of 15-year loan term, interest only, and a minimum payment option which is set below the interest payment (Chiu 2006, 3).

Interest-Only Loans: These loans defer the payment of the principal for a few months or years. After that pre-set initial interest-only payment period the borrowers face a shorter amortization schedule that increases their payments considerably (Chiu 2007, 3).

Hybrid ARMs: These loans offer an initial period of below-market fixed rate that then becomes adjustable according to market rates and loan provisions. The fixed-rate period may vary between 1 and 5 years (Chiu 2006, 4). Particularly for ARMs with shorter fixed-rate periods, the initial lower-than-market rate is called the "teaser" rate given its use as a marketing tool. The most traditional and safer form of Hybrid

ARM loan is the 5-year ARM, which provides 5 years of the initial fixed rate (interview with Simpser, 2007).

No Down Payment: Borrowers do not contribute any amount to the home purchase but instead apply for a second loan to cover the down payment. As the second loan is considered riskier than the first, interest rates tend to be higher (Chiu 2006, 4). Standard and Poor's calculated that in 2006, 29 percent of all mortgages originated had second lien loans (Inman News 2007a).

Alt-A Loans: These loans require less than normal documentation. In particular, borrowers are not required to provide proof of income. Because Alt-A loans are riskier, they tend to have higher interest rates (Chiu 2006).

The extension of ARMs and other nontraditional mortgage products to low- and medium-income borrowers can be partly

explained by the unprecedented period of rising home prices that lasted until the end of 2005. ARMs became a popular alternative for temporary loans that would be refinanced just before a new higher interest rate would start applying to the loan (Nutting 2007).

During periods of high housing appreciation and a "hot" market, borrowers can use the equity they gained through house appreciation to negotiate for a better loan or sell their houses fairly fast and therefore avoid foreclosure. However, when the demand for housing started to go down in early 2006, house appreciation stopped or became negative and the market slowed down, making it difficult for homeowners to sell their properties and increasing the rate of foreclosure (Nutting 2007). The next section of this report will deal with the effects of subprime loans and nontraditional mortgage products on foreclosure rates.

Foreclosures and their Effect on Homeownership Levels

Subprime Loans and the Risk of Foreclosures

Subprime loans provide a homeownership alternative to many individuals, but they present two clear disadvantages: They are more expensive and their underwriting rules can be lax. The higher cost of subprime loans puts additional economic pressures on borrowers, which are exacerbated by the current lack of home appreciation. Lax underwriting rules may lead to individuals buying more expensive homes than they can afford, leading them to lose their investment in the case of foreclosure.

The Center for Responsible Lending calculates that 20 percent of subprime loans originated during the last two years will end in foreclosure within the next 5 years, for a total of 2.2 million subprime foreclosures.⁹ It is expected that 110,000 subprime loans given to Latinos to buy a home or refinance their old loans will go into foreclosure in the next five years. If one takes into consideration the effect of both refinanced

and new homeownership loans, during its activities in 2005 the subprime market allowed around 73,000 Latinos to become new homeowners. It is also responsible for the eventual loss of their homes for 110,000 Latinos, a net loss of 37,000 homeowners for the Latino community in the long run (Center for Responsible Lending 2007).¹⁰

Nontraditional Mortgage Products and Foreclosures

ARMs contribute to foreclosures by adding additional risk factors to mortgage loans: They promote the existence of low equity and increase the probability of payment shock when the interest rates are reset. Option ARMs and Interest-Only Loans promote low equity by giving borrowers the option to avoid paying any amount of the principal and in some cases even some of the accumulated interest. No-down-payment loans mean that borrowers have no equity when they first become homeowners. Of the ARMs originating in 2005, 20.7 percent have 5 percent or less equity today in their homes and

⁹ Some foreclosures can be both subprime and ARM, as many ARM products are sold in the subprime market. Using a database of 100,000 borrowers, Fishbein and Woodall (2007) calculate that 80 percent of ARMs are subprime.

¹⁰ For comparison, 2005 African Americans received 505,286 subprime loans, of which 50,925 went to first-time homeowners; of the loans originated to African Americans that year, 98,025 loans will likely go into foreclosure within the following five years, for a total loss of 47,000 homeowners (Center for Responsible Lending 2007).

11.1 percent have lost equity, which makes them particularly vulnerable when their payments reset (Cagan 2007, 11).

Payment shock is a common phenomenon when the initial period of the introductory rate is over and borrowers have to start making bigger payments. The smaller the introductory rate, the higher the increase in payment. While some ARMs offer introductory rates that are at prime market level or even at subprime market levels, 1.1 million ARM loans originating between 2004 and 2006 offered “teaser” rates below 2 percent (Nutting 2007).

The problem with these incredibly low interest rates is that they tend to last a very short period. For 99 percent of low-rate (2 percent or less) ARMs originated in 2005, reset payment will take place that same year or the year after (Cagan 2007, 21). Individuals who were attracted to a loan because of that “too good to be true” initial rate are also the ones who face the biggest increase in their payments, well above 100 percent. Not surprisingly, the study calculates that if home prices remain equal at the national level, 1.1 million ARM loans will go into foreclosure in the next 6 to 7 years. For every percentage decrease in home prices 70,000 more ARMs will go into default (Cagan 2007, 4).

Borrowers who combine both subprime loans and nontraditional mortgage products will be particularly vulnerable to foreclosures in the next few years. Furthermore, both subprime loans and nontraditional mortgage products are getting harder and harder to get for many low- and medium-income borrowers, Latinos among them.

Given the state of the housing market and the projected foreclosures, lenders in the secondary market have withdrawn funds from brokers or demanded that they buy loans back (Inman News 2007b). In addition, investors, banks, and credit unions have toughened underwriting rules, making it impossible for many borrowers to qualify for a new home loan or refinance an old one (Nutting 2007).

Predatory Lending

In addition to the potential hazards inherent in the subprime and nontraditional credit products, Latino borrowers also have to beware of the existence of predatory practices among loan

originators. There are many forms of predatory lending, some of them outright fraud. Perhaps the most damaging for Latino immigrants and also difficult to prosecute are the combination of higher than normal interest rates and fees combined with pressure tactics (Goldstein 1999, 3). This type of predatory lending takes two forms: intentionally providing a person with a loan he or she can't afford, usually accompanied by a lack of disclosure, and providing loans that are more expensive than what individuals should pay given their characteristics.

Unaffordable Loans: Many low- and moderate-income borrowers lack the financial sophistication to understand the risks and implications of nontraditional products like ARMs and Alt-A loans. At the same time many originators, either because of their own lack of training for loan officials or because of deliberate attempts to mislead their customers, fail to make sure that the loans are appropriate and that individuals understand the conditions of the loan. This problem is particularly evident in hybrid ARMs, where originators use temporary “teaser” rates as marketing tools. Unfortunately, the structure of the mortgage industry favors this type of predatory lending, as many originators, particularly brokers, are paid a commission by lenders for the loans they bring and have no incentives to make sure that borrowers can actually afford them (Fishbein and Woodall 2007).

A few initiatives have been created to address this problem. For example, there are some legislative initiatives that would force lenders to qualify borrowers by the maximum amount of money they would need to pay, which would mean using the higher interest rate to be paid rather than the teaser rate to calculate affordability. Other proposals include the creation of a fiduciary duty by the originator, making him or her responsible for the affordability of the loans (Carter 2007).

Loan Discrimination. This type of predatory lending happens when an originator charges higher (mostly subprime) rates to individuals who could obtain better loans. Evidence suggests, although it does not prove, that Latinos are very vulnerable to this kind of predatory lending. Using the HMDA 2005 data plus a proprietary database, a recent report by the Center for Responsible Lending compared the interest rates obtained by white, Latino, and African American individuals with similar characteristics. The study calculated the

probability of an individual getting a higher rate loan, controlling for borrower and loan characteristics. “Higher rate” loans were defined as those being 3 percent points or more above the prevailing prime interest rate.

The study found that when Latino first-time homebuyers access the subprime market they are more likely to receive higher-rate loans than if they were white. For fixed-rate purchase loans Latinos were 141 percent more likely to have higher priced loans without prepayment penalty and 44.6 percent more likely to get higher priced loans with prepayment penalties compared to white individuals with similar risk-related characteristics. However, the study did not find a similar effect on refinancing loans, which indicates

that first-time homebuyers may be particularly vulnerable to abuses in the subprime market (Bocian et al. 2006, 18–19). It is important to note that some subprime lenders also offer ITIN loans but without the strong underwriting standards and with significantly higher interest rates than the other financial institutions profiled in this report.¹¹

11 In comparison, the same study found that for fixed-rate purchase loans, African Americans were 31 percent more likely to receive higher rate loans with prepayment penalties than whites with the same risk characteristics. In terms of fixed-rate refinance loans with prepayment penalties, African Americans were 34 percent more likely than whites to receive higher rate loans. African Americans were not significantly more likely than whites to get higher rate loans without prepayment penalties for either new purchases or refinances (Bocian et al. 2006, p. 16–17).

Conclusions

Overall, this report presents a cautiously optimistic view of homeownership prospects for Latino immigrants in the United States. The acceptance of ITIN numbers and the Matrícula Consular as valid forms of identification is a step towards helping undocumented workers become homeowners. Alternative underwriting guidelines and credit-building programs especially designed for the Latino community also represent positive developments. However, in order for these developments to really increase homeownership access for immigrants, they need to be made more readily and universally available. In other words, information about these new programs needs to be more effectively disseminated, and the programs themselves should become part of the mainstream mortgage industry. In addition, ITIN and alternative underwriting loans need to become more affordable to maximize wealth creation.

Also on the positive side, the subprime market and nontraditional mortgage products have increased both access to loans and the amount of money that borrowers can get among immigrants. However, because of lax underwriting, lack of supervision and education, and predatory lending, these programs have also created excessive risks for the already economically vulnerable Latino immigrant community. The industry seems to be developing mechanisms to protect the investments of both lenders and borrowers, but unfortunately

a large number of families, many of them Latino immigrants, are probably going to lose their homes in the near future.

Hispanic immigrants need to receive more information about the many programs specially created for them, and they also require financial education so that they can make informed decisions. ITIN loan programs have been incredibly successful, in part for good underwriting practices, but also for their emphasis on financial education. Financial education ensures that individuals get to know the conditions and therefore the advantages and disadvantages of nontraditional lending products. Education can reduce the chances that immigrants will be victims of predatory lending.

Programs aimed at increasing homeownership levels for immigrant Hispanics should be based on alliances among banks, government agencies, and community organizations. Such alliances are the most efficient instrument for providing initial access to inexpensive home mortgages, low down payments, and other favorable loan terms. Only programs that include these three types of organizations can provide all the elements necessary to promote ownership for the most economically vulnerable members of the Latino immigrant community. Furthermore, they are a good mechanism to increase the probabilities of immigrant families keeping their homes for the foreseeable future.

Bibliography

- Appleseed Center. 2005. "Building Texas Communities." Accessed online at http://www.texasappleseed.net/pdf/report_financial_BuildingCommunities_2005.pdf on April 19, 2007.
- . 2006 "Expanding Immigrant Access to Mainstream Financial Services: Positive Practices and Emerging Opportunities from the Latin American Immigrant Experience." Accessed online at <http://www.appleseeds.net/servlet/GetArticleFile?articleFileId=225> on April 2, 2007.
- Argentinean Consulate in Los Angeles. 2007. "Matrícula Consular." Accessed online at <http://www.consuladоargentino-losangeles.org/consulado/Matrícula.asp> on April 6, 2007.
- Avery, Robert B., Glen B. Cooper, and Robert E. Cook. 2005. "New Information Reported under HMDA and Its Application in Fair Lending Enforcement." *Federal Reserve Bulletin*, summer.
- Batog, Jennifer. 2006. "Detractors Kill Immigrant Loan Program: WHEDA Drops Lending to the Undocumented." *Business Journal of Milwaukee*, January 23. Accessed online at <http://www.bizjournals.com/milwaukee/stories/2006/01/23/story3.html?t=printable> on April 4, 2007.
- Bocian, Debbie Gruenstein, Keith S. Ernst, and Wei Li. 2006. "Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages." Center for Responsible Lending, May 31. Accessed online at http://www.responsiblelending.org/pdfs/rr011-Unfair_Lending-0506.pdf.
- Bruno, Andorra, and K. Larry Storrs. 2005. "Consular Identification Cards: Domestic and Public Policy Implications, the Mexican Case and Related Legislation." Congressional Research Service. Accessed online at <http://www.fas.org/sgp/crs/misc/RL32094.pdf> on April 6, 2007.
- Burnett, Kimberly, Alvaro Cortes, and Christopher Herbert. 2006. "Review of Selected Underwriting Guidelines to Identify Potential Barriers to Hispanic Homeownership." US Department of Housing and Urban Development. Accessed online at http://www.huduser.org/Publications/PDF/hisp_homeown3.pdf on April 10, 2007.
- Cagan, Christopher L. 2007. "Mortgage Payment Reset: The Issue and the Impact." *First American CoreLogic*, March. Accessed online at <http://www.firstamres.com/MPR2007> on April 5, 2007.
- Carter, Matt. 2007. "If Foreclosures Are the Earthquake, Watch out for the Credit Crunch Tsunami." *Inman News*, March 15. Accessed online at <http://www.inman.com/InmanNews.aspx?ID=62511> on April 10, 2007.
- Center for Responsible Lending. 2007. "Subprime Lending Is a Net Drain on Homeownership." Issue Paper No. 14, March 27. Accessed online at <http://www.responsiblelending.org/pdfs/Net-Losership-3-26.pdf> on April 5, 2007.
- Chiu, Shirley. 2006. "Nontraditional Mortgages: Appealing but Misunderstood." *Profitwise News and Views*. Consumer and Community Affairs Divisions, Federal Reserve Bank of Chicago, December.
- Cummings, Jean, and Denise DiPasquale. 1997. "A Primer on the Secondary Mortgage Market." National Community Development Initiatives Meeting, June 4, 1997, and City Research. Accessed online at <http://www.cityresearch.com/pres/smm.pdf> on May 10, 2007.
- Department of the Treasury. 2002. "Joint Notice of Proposed Rulemaking Customer Identification Programs for Banks, Savings Associations and Credit Unions." July. Accessed online at: <http://www.treas.gov/press/releases/docs/bankrule.pdf> on April 2, 2007.
- Downey, Kristin. 2007. "Foreclosure Wave Bears down on Immigrants." *Washington Post*. March 26. Accessed online at http://www.washingtonpost.com/wp-dyn/content/article/2007/03/25/AR2007032501323_pf.html on April 5, 2007.
- e-CFR (Electronic Code of Federal Regulations). 2007. "Chapter II, Part 228—Community Reinvestment (Regulation BB)." Accessed online at <http://www.ffc.gov/cra/pdf/newmarketstaxcredit.pdf> on April 10, 2007.
- Fannie Mae. 2005. "Housing Solutions." Accessed online at <http://www.fanniemae.com/initiatives/pdf/housing/housingsolutionsreport.pdf> on April 10, 2007.
- FDIC (Federal Deposit Insurance Corporation). 2007. "Supervisory Insights: Linking International Remittance Flows to Financial Services: Tapping the Latino Immigrant Market." Accessed online at http://www.fdic.gov/regulations/examinations/supervisory/insights/siwin04/latino_mkt.html on April 6, 2007.

- Federal Reserve Bank of Dallas. 2005. "Task Force Launched to Promote Financial Services for Immigrants." *E-Perspectives* Vol. 5, No. 1. Accessed online at http://www.dallasfed.org/ca/epersp/2005/1_2.html on April 30, 2007.
- FireCoalition. 2007. "Bank of America Gives Credit Cards to Illegal Aliens!" Accessed online at <http://bankrupt.firecoalition.com/> on April 6, 2007.
- First Consolidated Mortgage Company. 2006. "First Consolidated Mortgage Launches Three New ITIN Products." Press Release, December 8, 2006. Accessed online at <http://www.fcmcw.com/PressReleases.asp> on April 3, 2007.
- Fishbein, Allen J., and Patrick Woodall. 2007. "Exotic or Toxic? An Examination of the Nontraditional Mortgage Market for Consumer and Lenders." Consumer Federation of America. Paper presented at the Meeting for "An Informed Discussion of Nontraditional Mortgage Products and Other Risks." Organized by the Federal Reserve Bank of Chicago on January 31, Chicago, Illinois.
- Frias, Michael. 2004. "Linking International Remittance Flows to Financial Services: Tapping the Latino Immigrant Market." *Supervisory Insights (FDIC)* Vol. 1, Issue 2, 16–23. Accessed online at <http://www.fdic.gov/regulations/examinations/supervisory/insights/siwin04/siwin04.pdf> on April 3, 2007.
- Gallagher, Mari. 2005. "Alternative IDs, ITIN Mortgages and Emerging Latino Markets." *Profitwise News and Views*. Federal Reserve Bank of Chicago, March 2005, 2–8.
- Goldstein, Deborah. 1999. "Understanding Predatory Lending: Moving towards a Common Definition and Possible Solutions." Joint Center for Housing Studies of Harvard University and Neighborhood Reinvestment Corporation. Accessed online at http://www.jchs.harvard.edu/publications/finance/goldstein_w99-11.pdf on April 5, 2007.
- Government Innovators Network. 2006. "New Alliance Task Force. 2006 Finalist. Federal Deposit Insurance Corporation of Chicago." Harvard University, John F. Kennedy School of Government. Accessed online at <http://www.innovations.harvard.edu/awards.html?id=14557> on April 4, 2007.
- Gramlich, Edward. 2004. Remarks by Governor Edward M. Gramlich at the Financial Services Roundtable Annual Housing Policy Meeting. Federal Reserve Board. Chicago, Illinois, May 21. Accessed online at <http://www.federalreserve.gov/boarddocs/Speeches/2004/20040521/default.htm> on April 19, 2007.
- Grow, Brian. 2005. "Embracing Illegals: Companies Are Getting Hooked on the Buying Power of 11 Million Undocumented Immigrants." *BusinessWeek*, July 18. Accessed online at http://www.businessweek.com/print/magazine/content/05_29/b3943001_mz001.htm?chan=gl on April 2, 2007.
- Harney, Ken. 2007. "Effort to Bar Tax ID for Loans Draws Latino Fire." *Baltimore Sun*, February 23, page 1E.
- Hispanic PRWire. 2005. "Wells Fargo to Offer Home Loans to Los Angeles and Orange County Borrowers with Individual Taxpayer Identification Numbers." Accessed online at <http://www.hispanicprwire.com/news.php?l=in&id=5338&cha=14> on April 19, 2007.
- . 2006. "LAT Money Center Introduces Nationwide Program that Offers Mortgage Financing to Undocumented Workers," Press Release. Accessed online at <http://www.hispanicprwire.com/news.php?l=in&id=7445&cha=14> on April 3, 2007.
- HNMA (Hispanic National Mortgage Association). 2007. "ILUMINA Plans to Address Needs of Hispanics and Other Underserved Borrowers." January, 2007. Accessed online at http://www.hnma.com/hnma_news/ilumina_release_english.pdf on April 5, 2007.
- IHDA (Illinois Housing Development Authority). 2005. "Opportunity I Loans: Frequently Asked Questions." Accessed online at <http://www.ihda.org/admin/Upload/Files//c4928ec8-2569-469a-8d6c-c5f610738df1.pdf> on April 4, 2007.
- . 2007. "Banks and Lenders for Opportunity I Loans." Accessed online at <http://www.ihda.org/MapResults.aspx?ListTypeID=13&ListTypeSubID=8&County=all&ViewMode=2&Keyword=> on April 4, 2007.
- Inman News*. 2005. "Overnight Real Estate Rates Tick Higher." December 1. Accessed online at <http://www.inman.com/inmannews.aspx?ID=49010> on April 19, 2007.
- . 2007a. "2006 Subprime Performance Will Be the Worst in a Decade." March 26. Accessed online at <http://www.inman.com/inmannews.aspx?ID=62624> on April 5, 2007.
- . 2007b. "Subprime Lenders Hit Wall Street Funding Wall." January 3. Accessed online at <http://www.inman.com/inmannews.aspx?ID=60862> on April 11, 2007.

- IRS (Internal Revenue Service). 2007. "Individual Taxpayer Identification Number (ITIN)." Accessed online at <http://www.irs.gov/individuals/article/0,,id=96287,00.html> on April 6, 2007.
- Jordan, Miriam, and Valerie Bauerlein. 2007. "Bank of America Casts a Wider Net for Hispanics: Lender Risks Controversy Aiming New Credit Card at Illegal Immigrants." *Wall Street Journal*, February 13, Page A1.
- Kristofiak, Steven. 2007. "What Is a Subprime Loan? It Depends on Whom You Ask." *Inman News*, March 28. Accessed online at <http://www.inman.com/printer.aspx?ID=62655> on April 5, 2007.
- MGIC (Mortgage Guaranty Insurance Corporation). 2007. "Building a Life in America." Accessed online at http://www.mgic.com/pdfs/03-33061_balia_web.pdf and http://www.mgic.com/pdfs/71-42236_BALIA_guidelines.pdf on April 10, 2007.
- Muolo, Paul. 1996. "High Allure, High Costs." *For B & C U.S. Banker* 106 (6): 79–81.
- Nutting, Rex. 2007. "Will 'Lemming Loans' Drive the Economy off the Cliff?" *Market Watch*, March 23. Accessed online at <http://www.marketwatch.com/news/story/lemming-loans-drive-us-economy/story.aspx?guid=%7B1F050B96-5BA3-494D-9D92-FB882963206C%7D> on April 10, 2007.
- Office of the Governor of Illinois. 2005. "Governor Blagojevich Launches Program to Help Working Families in Immigrant and Minority Communities Buy Homes." Press Release, December 11. Accessed online at <http://www.ihda.org/admin//Upload/Files//4736957e-9c7e-4928-98a2-b98c857c70b8.pdf> on April 4, 2007.
- Paral, Rob. 2004. "The Potential for New Latino Homeownership among Undocumented Latino Immigrants." National Association of Hispanic Real Estate Professionals.
- Passel, Jeffrey. 2005. "Estimates of the Size and Characteristics of the Undocumented Population." Pew Hispanic Center, page 2. Accessed online at <http://pewhispanic.org/files/reports/44.pdf> on April 19, 2007.
- Paulson, Anna, Audrey Singer, Robin Newberger, and Jeremy Smith. 2006. "Financial Access for Immigrants: Lessons from Diverse Perspectives." Federal Reserve Banks of Chicago and the Brookings Institution. Accessed online at http://media.brookings.edu/mediaarchive/pubs/metro/pubs/20060504_financialaccess.pdf on April 13, 2007.
- Pender, Kathleen. 2007. "Primer on Subprime Loans: Trouble in the Mortgage Industry." *San Francisco Chronicle*, March 15. Accessed online at <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2007/03/15/BUGPEOL9P11.DTL> on April 5, 2007.
- Pew Hispanic Center. 2006. "Estimates of the Unauthorized Migrant Population for States Based on the March 2005 CPS." Factsheet. Accessed online at <http://pewhispanic.org/files/factsheets/17.pdf> on April 19, 2007.
- Ready, Timothy. 2006. *Hispanic Housing in the United States 2006*. Notre Dame: Institute for Latino Studies/Esperanza USA.
- Schloemer, Ellen, Wei Li, Keith Ernst, and Kathleen Keist. 2006. "Losing Ground: Foreclosures in the Subprime Market and Their Cost to Homeowners." Center for Responsible Lending, December. Accessed online at <http://www.responsiblelending.org/pdfs/CRL-foreclosure-rprt-1-8.pdf> on April 5, 2007.
- Stegman, Michael. 1999. *Savings for the Poor: The Hidden Benefits of Electronic Banking*. Washington DC: Brookings Institution Press.
- Stempel, Jonathan. 2007. "Bank of America Defends Immigrant Card Program." Reuters, New York. Accessed online at http://today.reuters.com/news/articlenews.aspx?type=domesticNews&storyid=2007-02-22T194533Z_01_N22475073_RTRUKOC_0_US-BANKOFAMERICA-IMMIGRANTS.xml&src=rss&rpc=22 on May 10, 2007.
- Telemundo47. 2005. "Matrícula Consular Colombiana: Se inicia su expedición en Nueva York." Accessed online at <http://www.telemundo47.com/inmigracion/5050272/detail.html> October 3, 2005 on April 6, 2007.
- USA Patriot Act. 2001. Senate and House of Representatives, US Congress. Accessed on-line at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=107_cong_bills&docid=f:h3162rds.txt.pdf on May 10, 2007.
- White House. 2007. "Homeownership." *Policies in Focus*. Accessed online at <http://www.whitehouse.gov/infocus/homeownership/> on April 15, 2007.

Interviews

Matthew Brophy, Regional Director and Vice-President for Community Development, Second Federal Savings Bank, Chicago, Illinois. Interviewed on April 2, 2007.

Jerry Dillon, President, LAT Wholesale Capital. Interviewed on April 4, 2007.

Leonardo Simpser, Managing Director and Co-Founder of the Hispanic National Mortgage Association. Interviewed on March 29, 2007.

Martha Walters-Pierce, Senior Vice-President and CRA Officer, New South Federal Savings Bank, Birmingham, Alabama. Email communication on April 3, 2007.

INSTITUTE *for*



Latino Studies

UNIVERSITY OF NOTRE DAME

