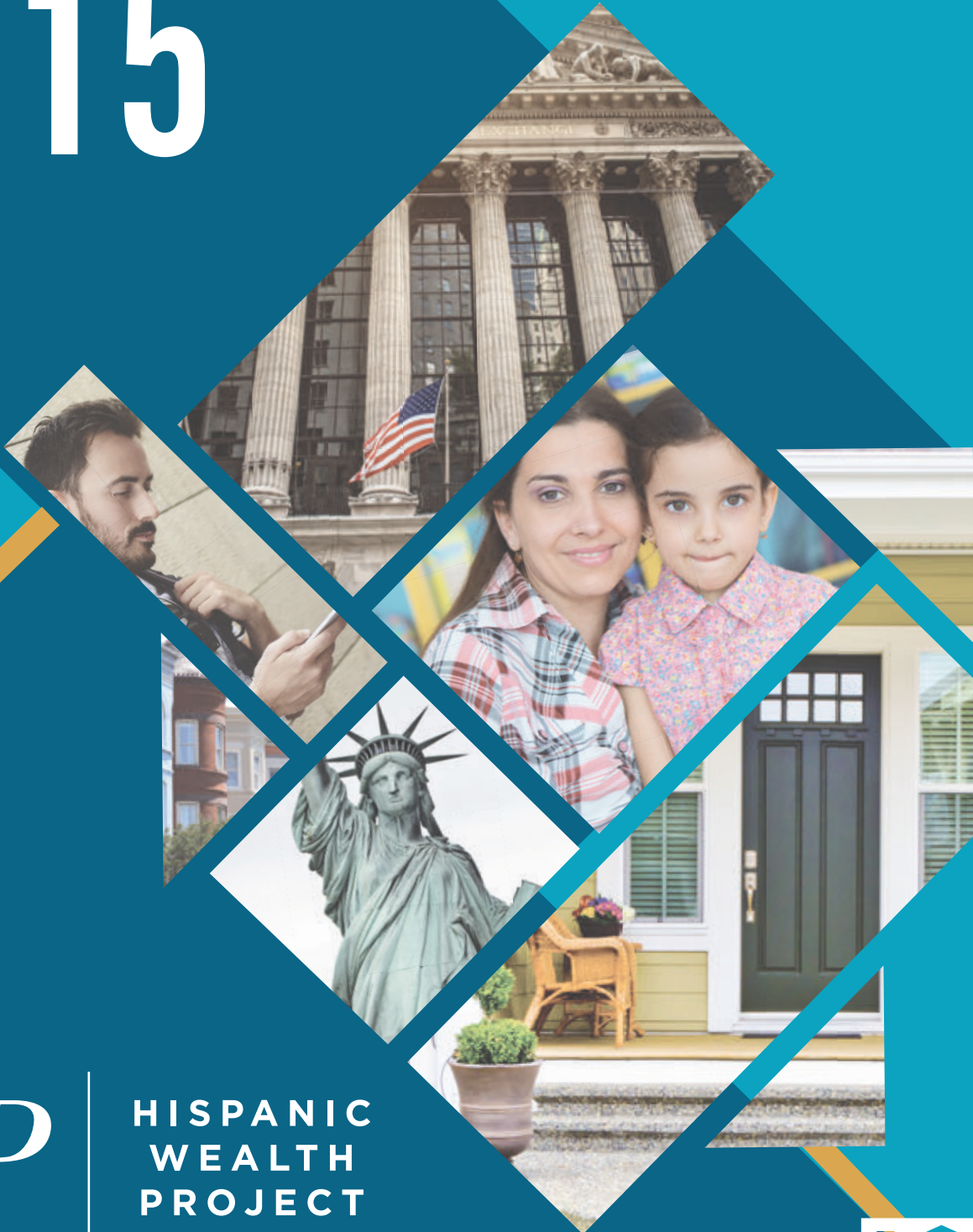


STATE OF HISPANIC HOMEOWNERSHIP REPORT 2015



HWP

**HISPANIC
WEALTH
PROJECT**

In Partnership with the National Association of Hispanic Real Estate Professionals®

NAHREP

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Established in 2012, the NAHREP Foundation, dba the Hispanic Wealth Project, is a non-profit charitable organization whose mission is to advance sustainable Hispanic homeownership through engagement in strategic efforts focused on Hispanic workforce participation in housing, small business development, and wealth building.

The National Association of Hispanic Real Estate Professionals® (NAHREP®) is a non-profit trade association founded in 1999. The association has 20,000 members that include real estate agents, brokers, mortgage professionals, and settlement service providers. NAHREP's mission is to advance sustainable Hispanic homeownership in America by educating and empowering real estate professionals who serve Hispanic homebuyers and sellers, advocating for policy that supports the organization's mission, and facilitating relationships between industry stakeholders and housing professionals.

The State of Hispanic Homeownership Report™ is a publication of the Hispanic Wealth Project and NAHREP.

2015 STATE OF HISPANIC HOMEOWNERSHIP REPORT

The 2015 State of Hispanic Homeownership Report® is a publication of the Hispanic Wealth Project™, and the National Association of Hispanic Real Estate Professionals® (NAHREP®). In this sixth edition, the report focuses on the household formation rates and the homeownership growth of Hispanics as well as their educational achievements, entrepreneurial undertakings, labor force profile, and consumer purchasing power in the United States. This year's edition highlights data that provides a comparative analysis of this past year and since the beginning of the 21st Century. The report specifically analyzes the demographic and economic trends that shape the homebuyer market, cultural nuances and the role of Hispanics as primary drivers of homeownership growth in the country.

Hispanic Homeownership Growth The Numbers

YEAR	RATE OF HOMEOWNERSHIP Percent	NUMBER OF HISPANIC OWNER HOUSEHOLDS Units	ANNUAL CHANGE IN THE NUMBER OF HISPANIC OWNER HOUSEHOLDS Unit Change
2000	46.0%	4,242,000	
2001	47.3%	4,497,000	+255,000
2002	47.0%	4,912,000	+415,000
2003	46.7%	5,172,000	+260,000
2004	48.1%	5,448,000	+276,000
2005	49.5%	5,852,000	+404,000
2006	49.7%	6,095,000	+243,000
2007	49.7%	6,303,000	+208,000
2008	49.1%	6,319,000	+16,000
2009	48.4%	6,253,000	-66,000
2010	47.5%	6,197,000	-56,000
2011	46.9%	6,328,000	+131,000
2012	46.1%	6,680,000	+352,000
2013	46.1%	6,776,000	+96,000
2014	45.4%	6,844,000	+68,000
Q4 2014	44.5%	6,815,000	
2015	45.6%	7,089,000	+245,000
Q4 2015	46.7%	7,346,000	+531,000

Table A. Hispanic homeownership rate and total owner households from 2000 through 2015
Origin: US Census Bureau



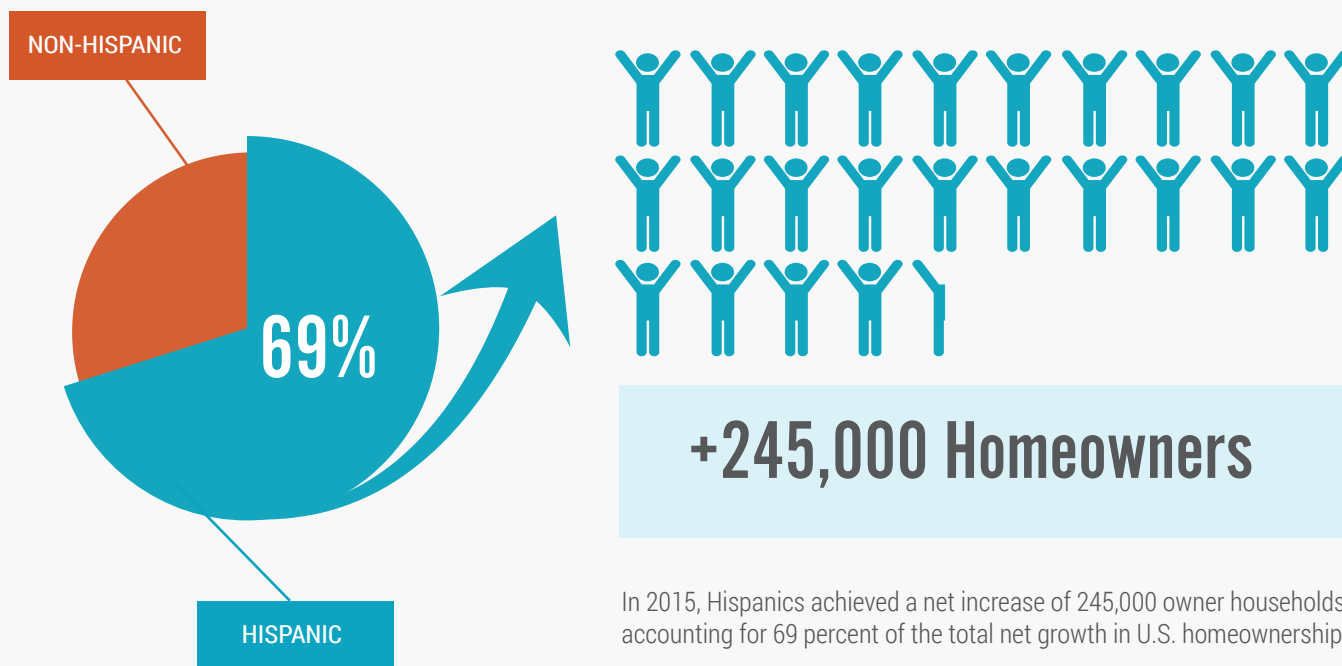
"The State of Hispanic Homeownership Report should be required reading by everyone in housing, especially lenders and REALTORS®. The Latino community is massive, it's ready to own, and it's now. The significance of Hispanics to housing and the economy will only grow, creating opportunity for all who focus on this vibrant, dynamic, and impactful part of the U.S. economy."

*David Stevens, President and CEO
Mortgage Bankers Association (MBA)*

Homeownership – Hispanic Homeownership Outpaces Every Other Racial Demographic

For the fifth consecutive year, Hispanics have attained measurable homeownership gains. In 2015, Hispanics achieved a net increase of 245,000 owner households, accounting for 69 percent of the total net growth in U.S. homeownership. Hispanics were the only major racial or ethnic group to raise their homeownership rate in 2015. For the first time in 10 years the Hispanic homeownership rate spiked upward while overall homeownership rates in the country continued a downward trend.

TOTAL HISPANIC HOMEOWNERSHIP INCREASE IN 2015



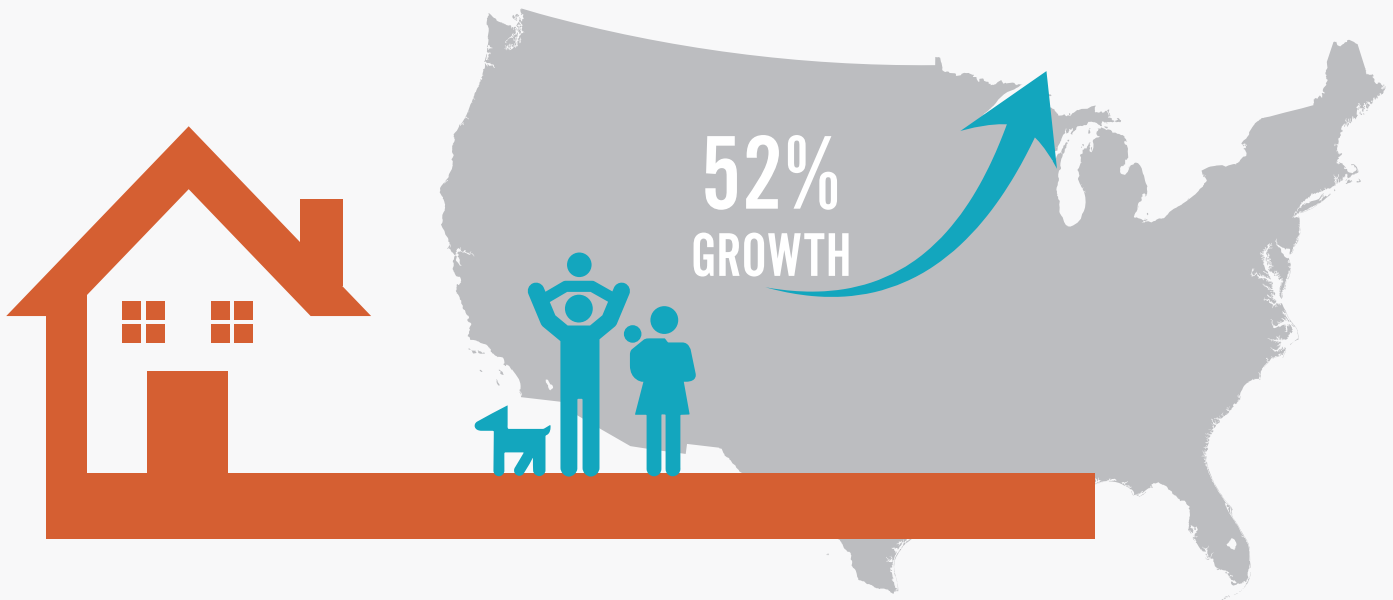
The rate of homeownership for every other major population group decreased by nearly 1 percentage point or more in 2015. According to the Census Bureau's Housing Vacancies and Homeownership Survey, between the fourth quarter of 2014 and fourth quarter of 2015, the rate of homeownership for Hispanics surged by more than 2 percentage points, from 44.5 percent to 46.7 percent. The Census Bureau expresses this data as quarterly and annual averages. So, while the annual average gain in net owner households in 2015 is impressive, the 2 percentage point surge from Q4 2014 to Q4 2015 represents a remarkable increase of 531,000 net new owner households. The last time Hispanics achieved these types of owner household gains was in 2005.

In the years immediately prior to the Great Recession, the number of Hispanic homeowners grew robustly, averaging an increase of 300,000 homeowners annually between 2000 and 2007. Unfortunately, much of that growth was fueled by sub-prime mortgages and proved to be unsustainable. Subsequent to 2007, Hispanic homeownership dropped for three consecutive years, both in terms of homeownership rates as well as the total number of homeowners. **Since 2010, Hispanics have achieved substantial gains in the total number of homeowners, averaging a net increase of 178,000 owner households per year.** However, because the Hispanic population continued to grow rapidly, these gains were not enough to lift the Hispanic homeownership rate, which dropped to a low of 45.4 percent in 2014. This trend was reversed in 2015. Given the rapid increase in Hispanic household formations, in order to demonstrate a net increase in the rate of homeownership, the demographic must achieve an even more rapid increase in owner households. This circumstance makes the 2 percentage point homeownership rate increase in the 12 months ending Q4 2015 especially noteworthy.

Since 2000, Hispanics have accounted for 52 percent of the growth in U.S. homeownership. Over the past 15 years, Hispanics achieved a net gain of 2,847,000 homeowners, from 4,242,000 in 2000 to 7,089,000 in 2015, a growth rate of 67 percent. In contrast, there are 85,000 fewer non-Hispanic White homeowners now than in 2000.

These Hispanic homeownership gains align with the projections from a study by the Urban Institute that predicts that Hispanics will account for 52 percent of new homeowners between 2010 and 2030. The Urban Institute indicates that Hispanics can achieve even higher levels of homeownership with favorable shifts in homeownership policies.

PROJECTED HISPANIC HOMEOWNERSHIP GROWTH BETWEEN 2010 – 2030



Population Trends and Household Formations – Hispanics Dominate Population and Household Growth

Since 2000, the U.S. Hispanic population has been a key driver of the country's overall population growth. **According to the Pew Research Center, in 2015 the Hispanic population reached a new high of 57 million (or 18 percent of the total U.S. population), an increase of 1.6 million from 2014.**

Hispanic population growth is taking place in both expected markets like California where Hispanics now outnumber non-Hispanic Whites, and in non-traditional markets in the Midwest and South such as Alabama, South Carolina, and Tennessee.

In 2015, Hispanics continued to dominate U.S. population and household formation growth, which are predictors of homeownership growth over the long term. In 2015, Hispanics accounted for 486,000 new household formations, representing 37 percent of total household formations in the country.

Hispanics comprise about 21 percent of the nation's 72.2 million millennials ages 18 to 34.¹ According to the Mortgage Bankers Association (MBA), U.S. household growth will be led by as many as 5.7 million additional Hispanic households over the next decade, and is expected to drive total growth in U.S. household formations through 2024.²

In fact, Hispanics have accounted for 43 percent of the growth in U.S. households since 2000 and have accounted for 56 percent of new household formations over the past five years.



Employment and Income – Hispanics Lead Workforce Participation and See a Rise in Real Incomes

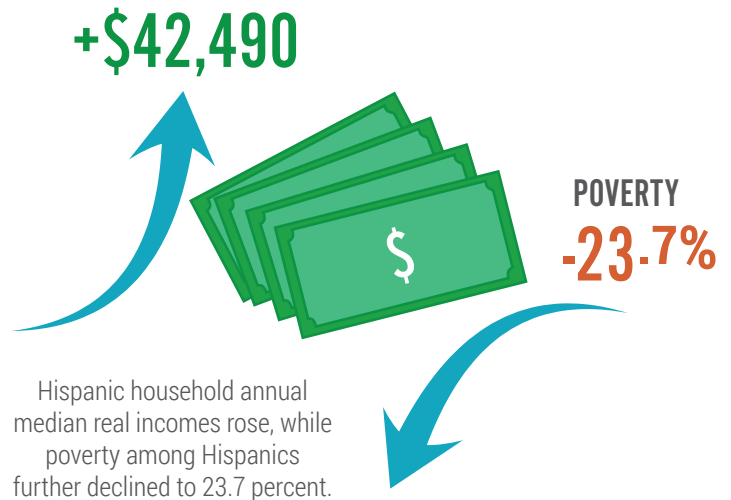
Hispanics continue to drive the growth of the nation's workforce and to increase its purchasing power. Between 2000 and 2015, Hispanics accounted for 66 percent of the growth in the U.S. labor force and for 73 percent of the growth in the number of U.S. workers employed. Nearly one million young U.S.-born Latinos enter adulthood each year, contributing to Latino labor force and U.S. labor force growth.

For two years in a row, from 2012-2014, Hispanics were the only major population group to simultaneously lower their poverty rate and increase their annual household income. The annual median income of Hispanic households soared 7.3 percent, to \$42,491 in 2014 up from \$39,600 in 2012. In 2014 alone, Hispanic household annual median real incomes rose, while poverty among Hispanics further declined to 23.7 percent.

In 2014, 43 percent of Hispanic households earned over \$50,000, 35 percent earned over \$75,000 and 14 percent earned over \$100,000, an upward trend from previous years.

In just five years, the purchasing power of Hispanics has grown from \$1 trillion in 2010 to \$1.5 trillion, an increase of 50 percent. Economists project Hispanic purchasing power to exceed \$2.0 trillion by 2020.

HISPANIC HOUSEHOLD ANNUAL INCOME

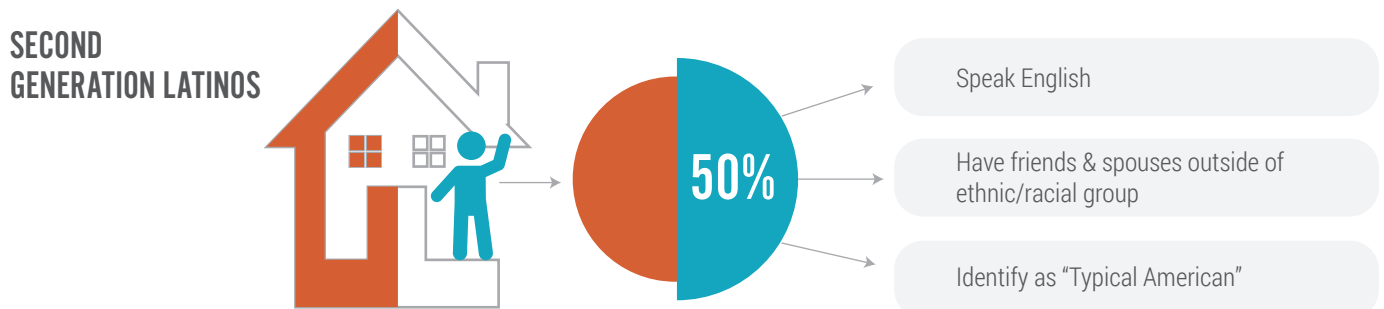


Consumer Attitudes and Buyer Nuances – Young Hispanics Seek Homeownership

Hispanic Millennials are fueling population growth and homeownership demand among young adults. Because they earn higher household incomes and achieve higher levels of education, they are capable of affording and buying a home faster than expected.

The housing industry is currently working to better understand the needs and purchase drivers of second-generation upwardly mobile Hispanic Millennials. According to Pew Research surveys, second-generation Hispanics have already attained a 50 percent rate of homeownership. They are much more likely than immigrants to speak English, to have friends and spouses outside their ethnic or racial group, to say their group gets along well with others, and to think of themselves as a "typical American"³.

A record 33.2 million Hispanics, or 68 percent of all Hispanics ages five and older, speak English proficiently. Similarly, 35.8 million Hispanics, or 73 percent of all Hispanics ages five or older, speak Spanish at home.⁴ While this percentage share is gradually declining, in-culture communication continues to be an important factor in effectively reaching the Hispanic market.



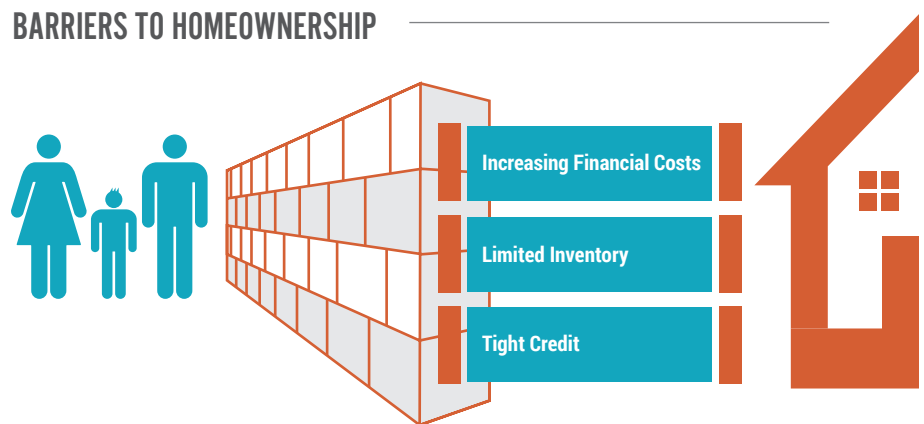
Source: Pew Research

Homeownership Barriers and NAHREP Survey – Affordable Housing Stock and Access to Credit Remain Barriers

Access to affordable mortgage credit continues to be a primary barrier to homeownership for Hispanics. Given the increasingly complex regulatory landscape, this issue is highly nuanced, as are potential solutions to make mortgages more readily available to credit worthy borrowers.

Available housing inventory continues to be a problem for interested owner occupants across the country. In October 2015, 25 percent of home sales in the U.S. were to investors. While this is a decrease over prior years, it is still 8 percentage points higher than in 2000.⁵ **Low inventory for purchase and high rent prices are creating a perfect storm affecting housing affordability and while this is problematic across the country, the adverse effects in some markets is a challenge that may not be corrected for years.**

The most significant data that illustrates the challenges confronting Hispanic homebuyers is the precipitous decrease in first-time buyer activity. According to the National Association of REALTORS® (NAR), the first-time buyer share of home purchases fell from 38 percent in 2013 to less than 30 percent in 2015—well below the 40 percent share typical before the housing crisis. This decline is even more concerning because current interest rates and price points continue to make home purchases relatively affordable and more than 50 percent of Hispanic homebuyers are first-time buyers.



Access to culturally competent real estate and mortgage professionals who can guide clients through a given transaction is also an important element in the homeownership equation. This is especially important for the Hispanic consumer segment in which a significant percentage are first time buyers who are unfamiliar with the home purchasing process. In a recent NAHREP member survey of top producers, 38 percent of respondents indicated more than half of their clients require Spanish as a main language in the home purchase transaction. In an already complex transaction, this additional language element makes the need for culturally competent professionals all the more critical.

Conclusion – A Break-out Year for Hispanic Homeownership but Challenges Could Slow Growth

Despite considerable challenges in credit access and a limited availability of affordable homes for sale, Hispanics achieved the strongest homeownership gains in a decade and seemed to break away from the pack. While overall homeownership trended downward, Hispanics experienced a substantial net gain. Hispanics also represent the country's largest segment of household formation growth.

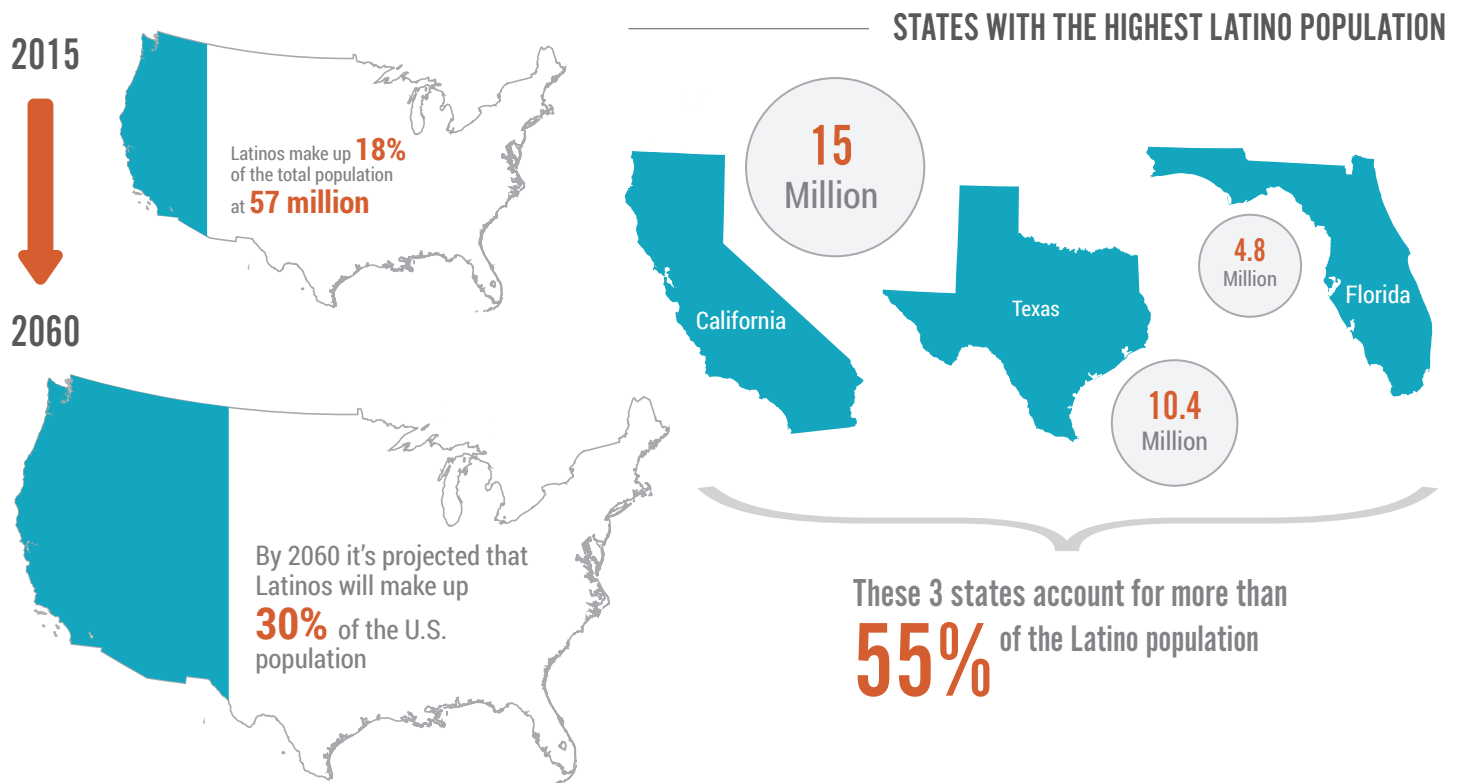
The areas of the country where the most substantial household growth is taking place are also noteworthy. **Nearly half of the overall increase in household formations occurred in the Midwest, Northwest, and the South.** Driven by affordability, this trend is consistent with overall Hispanic homeownership growth where more significant gains also occurred in those markets.

The geography of Hispanic household growth is an underlying factor complicating additional homeownership growth. Culturally competent real estate and mortgage professionals are relatively accessible in markets such as California and Florida but are in much shorter supply in other markets where the Hispanic population is growing fastest. As more housing supply becomes available and opportunistic investors begin to exit the market, this concern, coupled with continued issues with access to affordable mortgage credit, will present substantial challenges to the housing market if not addressed.

SECTION 1: HISPANIC POPULATION AND HOUSEHOLD FORMATION TRENDS

There are now 57 million Hispanics in the U.S. They comprise 18 percent of the total population, up from 5 percent in 1970. The U.S. Hispanic population has been a key driver of the country's population growth since at least 2000.⁶ This growth is fueled by a combination of factors including U.S. birth rates and immigration.

Over the last 20 years, the number of Latinos under the age of 18 has increased by 107 percent, compared to 11 percent for the entire U.S. population. Historically, Hispanic birth rates outpaced those of non-Hispanic Whites. While this trend began to slow considerably post-recession, in 2014 Hispanics already comprised 24 percent of the total U.S. population under 18. This percentage is expected to continue to climb making Hispanics the country's largest minority group by 2060 and in the under 18 cohort will be nearly equal in number to non-Hispanic Whites.⁷



While the majority of the U.S. Hispanic population is U.S.-born, immigration has made a material impact on the ethnic and demographic makeup of the U.S. In 1965, 84 percent of Americans were non-Hispanic Whites. By 2015, that share had declined to 62 percent. Meanwhile, the Hispanic share of the U.S. population rose from 4 percent to 18 percent over the same period of time.⁸ Immigration is an important contributor to higher birth rates among Hispanics, because foreign-born women tend to have more children on average than U.S.-born women. However, most growth in the Hispanic population from 2000 to 2010 was due to births, not immigration.⁹

“

“The State of Hispanic Homeownership Report highlights how important the Hispanic population has become in driving overall housing demand in the U.S., and how this influence will only continue to grow as their share of the population increases. Crafting housing policies that are attuned to meeting the needs of this important demographic group is essential to ensure they have access to decent and affordable housing.”

*Chris Herbert, Managing Director
Harvard Joint Center for Housing Studies*

Additional inflow from all immigrant groups will continue to change the ethnic make-up of the country with non-Hispanic Whites projected to decrease to less than half of the total U.S. population by 2055 and 46 percent by 2065. By this point, no racial or ethnic group will comprise a majority of the U.S. population. The Hispanic share of the overall population will continue to rise and is expected to represent 30 percent of the total U.S. population by 2060.¹⁰

Today, California (15 million) continues to lead the list of the states with the highest Hispanic population, followed by Texas (10.4 million) and Florida (4.8 million). Together, these three states account for more than half (55 percent) of the Hispanic population. The county with the highest Hispanic population by far remains Los Angeles County in California (4.9 million), followed by Harris County in Texas (1.9 million) and Miami-Dade County in Florida (1.8 million).

The number of Hispanic households has grown 70 percent from 9.2 million in 2000 to 15.6 million in 2015. In contrast, the number of non-Hispanic households in the U.S. has experienced marginal growth of only 9 percent from 93.4 million in 2000 to 101.8 million in 2015. In 2015, the number of total Hispanic households grew by 486,000, accounting for 37 percent of total U.S. household formation growth, the largest share of household growth for any major racial/ethnic population group in the country.

Hispanics represent the largest source of net household growth in the country, a trend that is expected to continue based on recent forecasts by the Mortgage Bankers Association (MBA). The study shows that due to long-term social and economic trends, **Hispanics will drive U.S. housing demand, accounting for 5.7 million more Hispanic households in 2024 than in 2014.** This represents 36 percent of total U.S. household formation growth (15.9 million) projected through 2024.

In particular, Hispanics comprise a large number of people in the 26- to 46-age range involved in most home sales. In fact, recent Census Bureau estimates show that Hispanics, with a median age of 29 years, are younger than other racial or ethnic groups. By comparison, the median age for non-Hispanic Blacks is 34, 43 for non-Hispanic Whites, and 36 for Asians.

As of 2013, there were already 1.1 million Hispanic owner households (16 percent) under the age of 34. Given the relative youth of the population, Hispanics have more buying years ahead than any other demographic group in the U.S. population and will increasingly transition into age groups with higher homeownership rates between now and 2024. The collective impact of these demographic drivers is predictive of a substantial increase in the rate of Hispanic homeownership.

SECTION 2: THE ROLE OF HISPANICS IN THE NATION'S ECONOMY

Homeownership

Hispanics account for 52 percent of U.S. homeownership growth since 2000. Over the past 15 years, Hispanics achieved a net gain of 2,847,000 homeowners, from 4,242,000 in 2000 to 7,089,000 in 2015, an impressive growth rate of 67.2 percent. In comparison, the total number of non-Hispanic owner households grew from 64,981,000 in 2000 to 67,617,000 in 2015, a growth rate of only 4.1 percent.

In 2015, Hispanics achieved a net increase of 245,000 owner households (see Table A). They have attained a cumulative net increase of 892,000 owner households since 2010, accounting for 60 percent of the total homeownership growth among all racial and ethnic population groups in the country during that period.

The rate of homeownership for every other major population group decreased by nearly 1 percentage point or more in 2015. According to the Census Bureau's Housing Vacancies and Homeownership Survey, between the fourth quarter of 2014 and fourth quarter of 2015, even as the economy slowed, **the rate of homeownership for Hispanics surged by more than 2 percentage points, from 44.5 percent to 46.7 percent.** The Census Bureau expresses this data as quarterly and annual averages. So, while the annual average gain in net owner households in 2015 is impressive, the 2 percentage point surge from Q4 2014 to Q4 2015 represents an eye-popping increase of 531,000 net new owner households as indicated in Table A. The last time Hispanics achieved these types of owner household gains was 10 years ago.

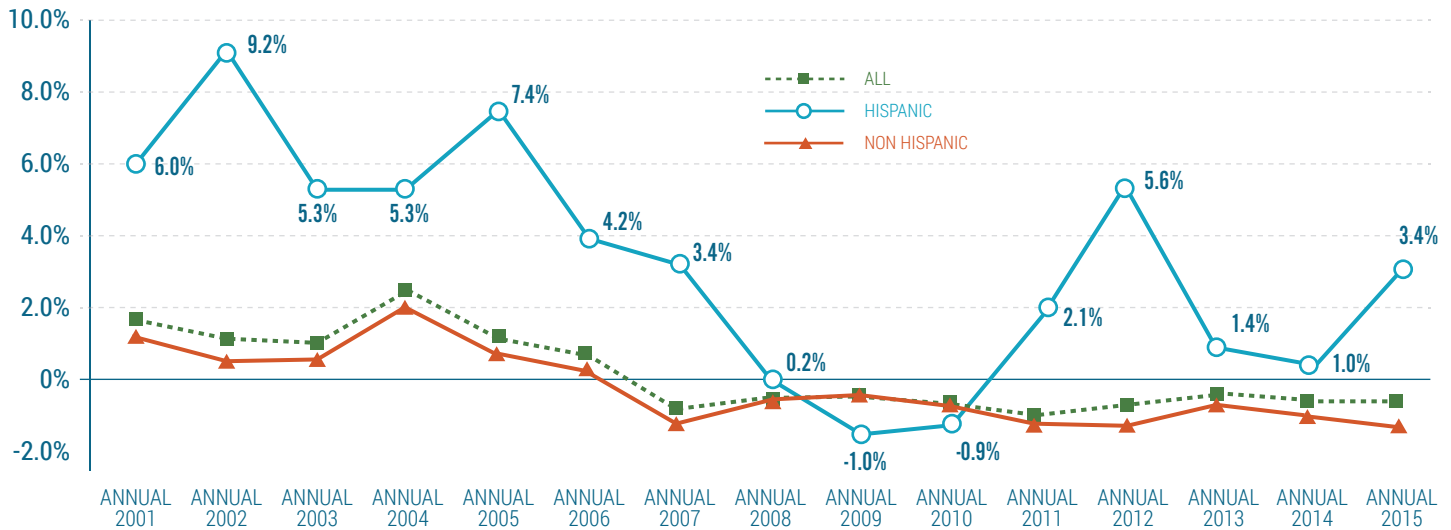
GRAPH A GROWTH IN OWNER-OCCUPIED UNITS IN THE U.S.

Percentage Changes in the Growth of Owner Households in the U.S. from 2000 to 2015

AVERAGE ANNUAL INCREASE

+0.3%
NON HISPANIC

+3.5%
HISPANIC



Origin: US Census Bureau, Homeownership Data, Fourth Quarter 2015



Latinos saw a 2 percentage point surge in owner households from Q4 2014 to Q4 2015, representing 531,000 net new owner households

531,000
+

A recent study by the MBA considers what would happen if the Federal Government implemented policies that effectively promote homeownership and homeownership rates reverted to their long-term averages (since 1983). Under this scenario, Hispanics would continue to spearhead homeownership growth with 3.5 million more Hispanic owner households in 2024 than in 2014, representing an average annual increase of 350,000 net new owner households.

Labor Force Participation

Hispanic labor force participation has been an increasingly important driver of U.S. employment growth. Between 2000 and 2015, Hispanics accounted for 66 percent of U.S. labor force growth and for 73 percent of the increase in U.S. workers employed.

The rate of Hispanic unemployment was 5.4 percent in February 2016, its lowest level since October 2007, only half a percentage point higher than the U.S. unemployment rate of 4.9 percent. The unemployment rate of Hispanics has fallen by 7.7 percentage points since its peak of 13.1 percent in August 2009.

Hispanics have consistently attained a higher rate of labor force participation. In February 2016, the U.S. rate of labor force participation was 62.9 percent. In contrast, the rate was 66.1 percent among Hispanics, more than 3 percentage points higher.

Around 45 percent of the Hispanic labor force in 2013 was under age 35, compared with around one third of the non-Hispanic labor force. Additionally, nearly one million U.S.-born Latinos enter adulthood each year, contributing to U.S. labor force growth. In fact, Hispanic labor force participation is higher than that of the non-Hispanic population.¹¹

According to a new study by IHS Global Insight, an economic forecasting firm, Hispanics will account for approximately 11 million jobs out of 14 million new positions across the economy between now and 2034.¹² The result is an increase in the Hispanic share of U.S. employment to 23 percent over the next two decades, up from 16 percent in 2014. Given these variables, **the Hispanic population is expected to continue to drive U.S. employment growth for the foreseeable future.**

Income

In 2014, Hispanic annual median real household incomes increased to \$42,491, even as the incomes of other population groups declined.¹³ For two years in a row from 2012-2014, Hispanics were the only major population group to simultaneously lower their poverty rate and increase their annual household income. In 2014 alone, Hispanic household annual median real incomes rose, while poverty among Hispanics further declined to 23.7 percent.

Since 1987, the growth of median household income for Hispanics ages 25 to 34 (\$42,916) has increased by 7 percent, while the median household incomes of non-Hispanic White households (\$58,197) and of Black households (\$43,957) in the same age group increased only slightly.¹⁴ **Income gains among this age range are especially significant as they are entering prime home buying years.**

In 2014, Hispanics across all brackets continued to experience increases in income with 43 percent of Hispanic households earning over \$50,000, 35 percent earning over \$75,000 and 14 percent earning in excess of \$100,000 annually.

Education

Hispanics represent nearly one in four students in U.S. public schools today and make up an increasing share of kindergarten classrooms. This includes states like Nebraska, Idaho, Washington, Kansas, and Oregon, where Hispanics had not previously comprised a substantial amount of the overall population.¹⁵

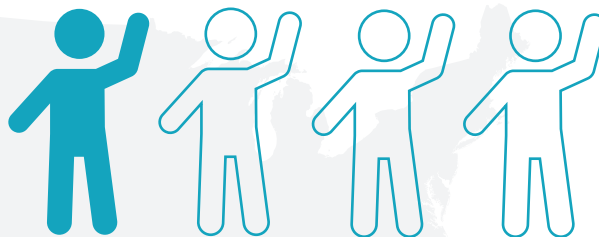
According to the National Center for Educational Statistics, Hispanics achieved a high school graduation rate of 76.3 percent in 2014, their highest rate of high school graduation over the last 31 years.¹⁶ Increases in college education participation are also evident as the number of Hispanics ages 18 to 24 enrolled in a two- or four-year college has more than tripled since 1993.



*"Higher levels of educational attainment, employment and income for Hispanic Americans are clearly documented in the **State of Hispanic Homeownership Report**. These gains have provided the financial means for Hispanic families to post homeownership gains, even when other demographic groups have experienced declines."*

Frank Nothaft, Chief Economist
CoreLogic

The number of Hispanics aged 18-24 enrolled in college has more than **tripled** since 1993.

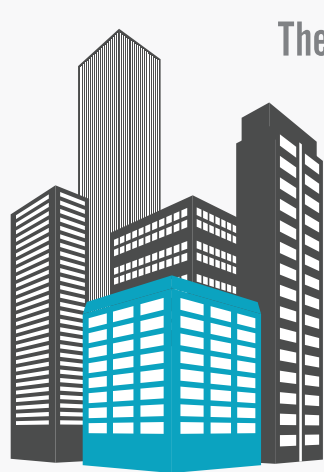


Hispanics represent nearly **1 in 4** students in U.S. public schools

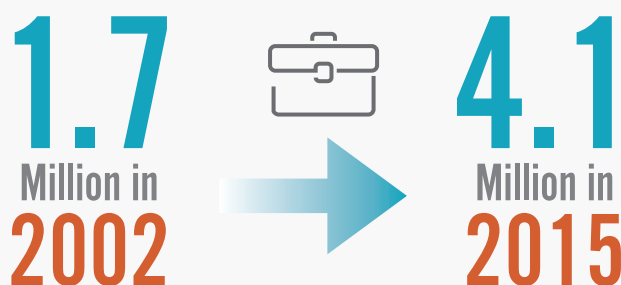
Entrepreneurship and Purchasing Power

There are more than twice as many Hispanic-owned businesses today than there were 13 years ago, growing from 1.7 million in 2002 to an estimated 4.1 million in 2015. **The rate of new Latino entrepreneurs also doubled from 10 percent in 1996 to 22.1 percent in 2014.**¹⁷ This trend continued into 2015 where, according to the Kauffman Index of Entrepreneurship, **Latinos had the highest rate of new business starts.**

According to the U.S. Census Bureau's Survey of Small Business Owners, **Hispanic women attained the largest percentage increase in business ownership between 2007 and 2014.** In 2012, there were nearly 1.5 million small businesses owned by Hispanic women, an 87 percent increase from 2007, with these businesses generating a total of \$83.6 billion during that period.¹⁸ Latinas now own 36 percent of minority women-owned businesses in the U.S. and one of every 10 women-owned businesses overall.



The number of Hispanic-owned businesses in the U.S. has more than **doubled** from 13 years ago, growing from



Economists estimate that Hispanic purchasing power is now at \$1.5 trillion and is likely to surpass \$2.0 trillion by 2020. Mike Valdes-Fauli, president and CEO of Pinta, a mega-marketing firm, expects **Hispanic buying power to grow by 50 percent in the next five years.**¹⁹

LATINAS OWN



36% of U.S. businesses by
minority women



and one of **every 10**
women-owned businesses



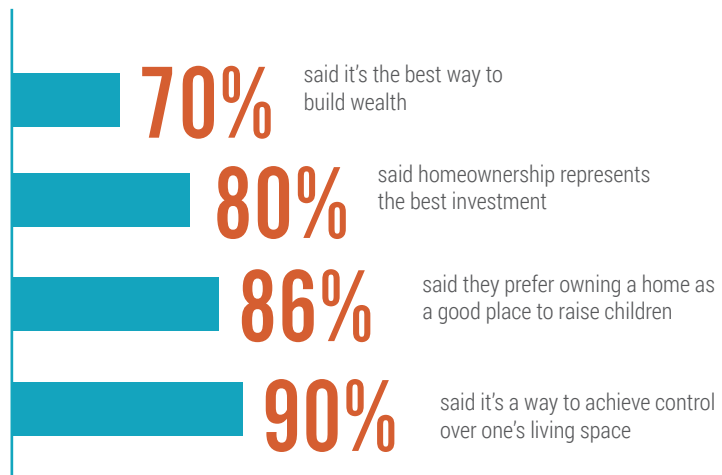
SECTION 3: CONSUMER ATTITUDES AND PREFERENCES

Fannie Mae National Housing Survey

Fannie Mae conducts attitudinal feedback surveys from consumers as part of an overall effort to support the housing market. Fannie Mae's Oct.-Nov. 2015 survey shows that **Hispanics hold an optimistic economic outlook but are hesitant to buy a home because of tight credit conditions.**



- Most Hispanics (57 percent) say that they expect their personal financial situation to improve, even though only 37 percent of them say the economy is on the right track.
- Nearly half of all Hispanics (46 percent) say this is a good time to buy a home.
- While more than 25 percent of Hispanics say that mortgage rates are favorable, only 5 percent of them say that it is easy to qualify for a mortgage now.



A wide margin (67 percent) of Hispanics still prefer homeownership to renting. In fact, a majority (52 percent) say they would likely buy a home rather than rent if they were going to move. **At 86 percent, Hispanics prefer owning a home and view it as a good place for the family to raise children.**

- At 90 percent as a way to achieve having control over one's living space
- At 80 percent as representing the best investment
- At 70 percent as the best way to build wealth

Hispanic Homeownership Demand

Today, nearly four million Latinos — both native and foreign-born — would like to buy a home. However, according to a new report by the Demand Institute, only 1.5 million can afford it. With national homeowner vacancy rates at 1.9 percent, many prospective Latino homebuyers are expanding their home search beyond urban areas and into the suburbs, where housing is less expensive.²⁰

The Demand Institute found that 52 percent of Hispanics who are considering moving would like to purchase a home in the next five years, but only 19 percent are actually prepared to do so. The resulting gap between those who

want to purchase and those prepared to do so represents approximately 2.5 million Hispanic households. **This study also found that 76 percent of Hispanics think housing is an excellent investment and 68 percent of them say homeownership is an important goal.**²¹

A survey conducted by TD Bank echoes the Demand Institute's findings that more Latinos are considering purchasing a home, particularly as rental costs increase. Its survey shows that within the next two years, **Latinos are 9 percent more likely than the general market to purchase a home.**²²

According to the TD Bank survey, the main reasons Hispanics want to buy a home are increasing rental costs (47 percent) and a desire to build equity (40 percent). The report established that more than 70 percent of Hispanics value homeownership, compared to just 59 percent of the general market.

Even though nearly one third of those surveyed indicated they have saved toward the purchase of a new home, a majority of Latinos continued to express concerns regarding this and other obstacles keeping them from purchasing one. Chief among these impediments was a noted issue with the ability to save for a down payment where fully 60 percent cited this as a barrier, as compared to 51 percent of the general market.

SECTION 4: BARRIERS TO HISPANIC HOMEOWNERSHIP

Access to Affordable Mortgage Credit

Last year, the Urban Institute speculated that if credit standards between 2009 and 2014 had been similar to 2001 levels, 5.2 million more mortgage loans would have been made. In 2015, there was not much improvement in this area. Thus, a lack of access to affordable mortgage credit continues to be one of the largest homeownership barriers. In particular, **Latino homebuyers continue to experience higher loan denial rates.** From 2013 to 2014, overall denial rates for home purchase loans by Latino applicants were 18 percent, versus 11 percent for non-Hispanic White applicants.

Reasons influencing these outcomes are complex and influenced by a number of factors. The most common problem is that many lenders remain concerned about the cost and reputational risks associated with defaulted loans and in response continue to overlay more restrictive credit requirements beyond what their secondary market providers such as Fannie Mae and Freddie Mac require. Hispanics, like many first time buyers, tend to be on the underwriting margins and generally need loans that allow for smaller down payments and lower credit scores. With few exceptions, only the highest quality loan applications are being funded. While the regulatory landscape remains intense, the larger lenders in particular seem less willing to take on additional risk.

“

*"Hispanic homeownership is making great strides, as is cogently documented in this year's **State of Hispanic Homeownership Report**. And much greater success is possible if some of the policy proposals outlined in the report come to fruition."*

Mark Zandi, Chief Economist
Moody's Analytics

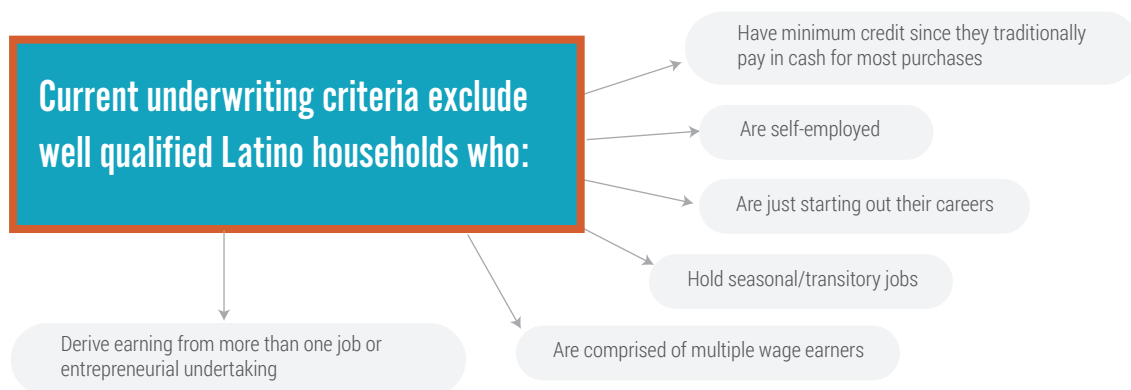
Additionally, while some product innovation and non-QM lending exists in the Jumbo lending space, **very little product innovation is occurring in the affordable markets.** Smaller loans have always been less profitable, but new rules regarding loan officer compensation and loan servicing are making the economic viability of small dollar amount loans more difficult and the likelihood of more aggressive new products in the market unlikely in the near term. Product innovation is especially needed to address the larger amount of income from non-traditional sources such as self-employment income, boarder income and income from part-time or temporary work.

Shortage of Housing Inventory

Affordable housing inventory remained tight in 2015 as the new construction of affordable homes was scarce and the number of homeowners with negative equity remained higher than historic averages. Additionally, investors continued to edge out owner occupants in their pursuit of available housing inventory to purchase. In October 2015, 25 percent of home sales in the U.S. were to investors. While this is a decrease over prior years, it is still 8 percentage points higher than in 2000.²³ In Orlando, Florida, 39 percent of all sales in October 2015 were all cash, mostly to investors. This is a full 23 percent greater than at this same time in 2006.²⁴ In Miami, the trend is even more astounding with nearly half of all homes selling for all cash. In fact, the overwhelming majority of the 100 largest metro areas have higher cash sales now than in 2006,²⁵ leaving little to no opportunity for owner occupants to take advantage of current interest rates at historic lows.

With a small pool of homes for sale, rental-housing demand is on the rise. According to a recent U.S. Census Bureau report, the median asking price for rent went up 11 percent in the past year alone. Single-family rental stock increased by 3.2 million net units between 2004 to 2013, resulting in 35 percent of the overall U.S. rental stock being comprised of single-family homes.²⁶ Despite this infusion of rental properties, rental vacancies remain at historic lows, further driving rental prices up. This creates a challenge for prospective homeowners who wish to save for a down payment but are spending 30 to 50 percent of their income on rent. Three quarters of renters earning \$30,000 - \$45,000 in the ten-highest cost metros have disproportionately high housing cost burden.²⁷

LACK OF ALTERNATIVE CREDIT SCORING & APPROPRIATE UNDERWRITING



Alternative Credit Scoring Models

A study by the Consumer Financial Protection Bureau (CFPB) found that about 15 percent of Hispanic consumers are "credit invisible" compared to 9 percent of White consumers.²⁸ Credit invisibles do not have a credit report generated by the three major credit reporting agencies.

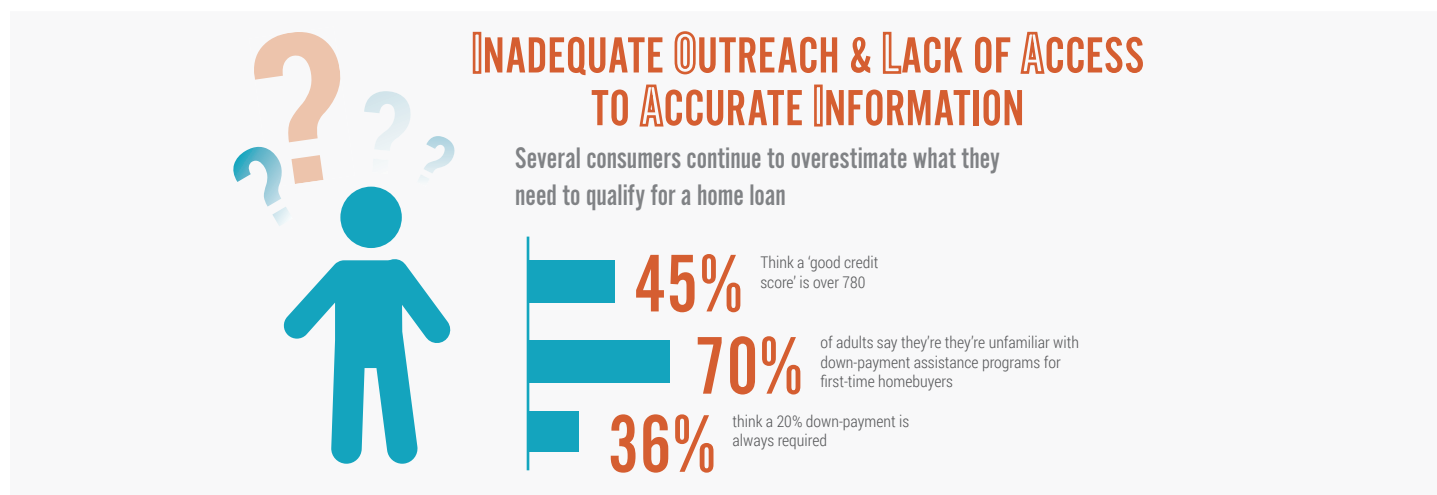
An additional 12 percent of Hispanic consumers have "unscorable" records under the FICO model compared to 7 percent of White consumers.²⁹ Those with unscorable records do not have enough information to generate a FICO credit score. Essentially, 27 percent of the Hispanic consumer population are not accurately rated by the predominant credit scoring mechanisms used in the U.S. today and thus are prohibited from access to credit.

This data suggests that FICO does not accurately capture credit capacity for Hispanic consumers. Since the CFPB analysis suggests that the scoring differences begin in early adulthood and continue thereafter for Hispanics and other ethnic groups, addressing this credit-scoring problem is critical. Understanding the cultural conditions that influence these

patterns is especially important. For example, Hispanics tend to be more credit averse than non-Hispanic populations, using cash as a primary means of payment for goods and services. This credit aversion only reinforces the scoring gaps in the current credit-scoring model.

Down Payment Access and Down Payment Assistance Programs

Accumulating enough savings for a down payment and adequate reserves may be the largest barrier of all according to several surveys. However, the burden for a significant number of prospective buyers may not be as large as it is perceived. According to a recent Wells Fargo survey, **a large percentage of consumers continue to overestimate what they need to qualify for a home loan.** Two-thirds believe they need a very good credit score to buy a home, with 45 percent thinking a “good credit score” is over 780.³⁰



Consumers also overestimate the down payment funds needed to qualify for a home loan, with 36 percent thinking a 20 percent down payment is always required. The Wells Fargo survey also indicated that when they are ready, consumers want a lending experience that is both convenient and personal, combining online tools with human guidance (73 percent).

Down payment assistance programs are available in many markets but most consumers are not aware of their existence. A survey by NeighborWorks America found that **70 percent of adults say they are unfamiliar with down payment assistance programs for first-time homebuyers.**³¹

Most of these programs require counseling, which helps to mitigate risk and enhances the attainment of sustainable homeownership. Many of these programs are available in markets like Los Angeles, CA; San Diego, CA; and Maricopa, AZ that are heavily populated with Hispanics. A year ago, NeighborWorks organizations alone provided 6,000 homebuyers with more than \$100 million in down payment assistance.³²

10 U.S. Counties with Most Homes Qualifying for Down Payment Help

Table B.
Origin: RealtyTrac and
DownPaymentResource.org

STATE	COUNTY	TOTAL SINGLE FAMILY HOMES & CONDOS IN COUNTY	TOTAL THAT QUALIFY FOR DOWN PAYMENT ASSISTANCE	PCT. THAT QUALIFY
CA	Los Angeles	1,762,256	1,377,813	78.18%
IL	Cook	1,372,463	1,163,913	84.80%
AZ	Maricopa	1,227,121	1,052,746	85.79%
TX	Harris	1,038,027	961,957	92.67%
MI	Wayne	692,174	653,221	94.37%
CA	San Diego	717,165	618,050	86.18%
FL	Miami-Dade	716,924	589,683	82.25%
NV	Clark	605,679	558,411	92.20%
TX	Dallas	574,849	533,518	92.81%
FL	Broward	623,634	523,178	83.89%

Cost of Financing

Hispanic homebuyers are more likely to make smaller down payments. **Of the roughly 6.5 million Hispanic homeowners that owned their home as of 2012, more than 2.5 million (39 percent) purchased their home with a down payment of less than 5 percent, compared to 29 percent for all U.S. households.**

More recently, in a NAHREP survey of top producing agents, respondents indicated that more than 30 percent of their clients purchased their home with a down payment of 5 percent or less. In this same survey, nearly 70 percent of respondents indicated that a majority of their clients use an FHA loan to finance their home purchase.

The cost of financing such a loan through FHA includes mortgage insurance premiums for the life of the loan, which can increase the cost of the mortgage by hundreds of dollars per month and reduce overall affordability.

While some conventional financing options require as little as 3 percent down payment, there are generally additional costs associated with these loans that make them cost prohibitive for many borrowers. Because Hispanics tend to have smaller down payments they are disproportionately affected by these additional costs.

Lack of Culturally Competent Mortgage and Real Estate Professionals in Emerging Hispanic Markets

While there is very little available data on the subject, it is estimated that 7 percent of real estate agents and 4 percent of mortgage professionals are Hispanic. These figures are substantially lower in the Midwest and Southern U.S. where Hispanic populations are growing the fastest. **Competent professional guidance is needed most with first-time buyers and Hispanics are expected to account for more than 50 percent of first-time buyer activity nationwide.** Even more challenging is that approximately 25 percent of all Hispanic buyers say they prefer a real estate agent who can assist them in Spanish.

If Hispanic homeownership is going to reach its potential, the industry is going to have to recruit and produce a substantial number of professionals with language skills and cultural competencies — especially in markets where Hispanic populations are emerging.

SECTION 5: UNIQUE HISPANIC SEGMENTS AND CONSUMER NUANCES

The Impact of Hispanic Millennials on Market Demand

The housing needs and preferences of Millennials, who are the most racially diverse generation in history, will have a material impact on housing demand over the next several years. **In 2015, Latino Millennials represented 15.1 million and made up about 21 percent of the nation's 72.2 million individuals ages 18 to 34.**³³

MILLENNIALS

The Latino Millennial population (ages 18 - 34) was

15.1 million, or 21% of the nation's

72.2 million Millennials.



21% LATINO

As Millennials continue to add to the populations of several cities, early indications suggest they will continue to prefer urban settings and be less likely to buy single-family homes than members of previous generations of young home buyers. However, Hispanic Millennials are more likely to be multigenerational, suggesting increased demand for homes that accommodate larger households. Their growing presence in the market will increase the need for more affordable housing options as well as mortgage products best suited to their financial circumstances.³⁴

A recent analysis based on U.S. Census Bureau data illustrates how age is an important factor in homeownership. While the overall rate of homeownership for Hispanics is 45.6 percent, Hispanics over 55 have a homeownership rate of 60 percent or greater. Data from multiple surveys suggests Hispanics have a strong desire for homeownership. Given this aspirational motivation, as Hispanic Millennials continue to achieve income gains, indications suggest they will transition into homeownership at a faster pace than their non-Hispanic counterparts.

The nuanced consumer behaviors of Hispanic Millennials influence their buying decisions for consumables and home purchases. Hispanic Millennials out-index other demographics and age groups in use of smart-phones, video and music streaming. They are family-centric, more likely to want children, and place a premium on walkability and better quality of life. They prefer to live near work, school, shops, restaurants, and parks or plazas to allow for leisure activities.³⁵

They are entrepreneurial at heart, with 52 percent of Hispanic Millennials expressing a desire to start their own business one day.³⁶ They envision a home of one's own as more than an investment: a great place to live and raise children, a pathway to prosperity, and as the fulfillment of the American dream.

Hispanic Millennials want to own a home that reflects their personal style, is ideal for welcoming their families and friends, and represents a great sense of pride and accomplishment. Because Hispanic Millennials will help shape and drive the market, reaching them with a compelling marketing message that resonates culturally is crucial.

Latinas on the Rise

One in five women in the U.S. is a Latina. Given Latinos are just over 18 percent of the total U.S. population, Latinas represent a significant portion of the overall U.S. female population and their forward progress is important to the economic prosperity of the U.S.

In the decade between 2003 and 2013, Latinas raised their high school graduation rate by more than 14 percentage points. Overall, Latinas are graduating from high school at higher rates than their Hispanic male counterparts and have earned 60 percent of all bachelor's degrees earned by Latinos.³⁷

Latinas have made entrepreneurial gains as well, and own more than one million businesses in the U.S., accounting for 10 percent of all women-owned firms in the United States. Latina-owned businesses are also growing at a much faster rate than businesses for all women, experiencing over 200 percent growth between 1997 and 2014, as compared to 32 percent for non-Latina women-owned businesses. In 2014 alone, Latina businesses employed over 400,000 persons and contributed over \$71 billion to the economy.³⁸

In the decade between 2004 and 2014, Latinas made greater earnings advancements than all other women. In 2004, Latinas earned just 70 cents for every dollar earned by all full-time female workers. By 2014, they had improved their earnings to 78 cents for every dollar earned by other women. **As a group, Latinas have fared better in wage earnings over the last decade than other women.**³⁹

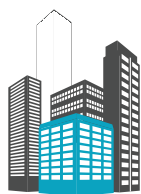
Latinas have become a major force in the U.S. economy. Their purchasing power and economic contributions play a major role when it comes to home-buying decisions. According to a 2015 NAHREP survey, 91 percent of Hispanic women ages 25 to 60 believe that purchasing a home is the best financial investment they can make.⁴⁰



The NAHREP survey found that 61 percent of Latina respondents believe that they will play a larger role than their partners will when buying a home. In addition, 59 percent of Latina respondents said that when buying a home, they will likely research homes to visit, 58 percent will research communities or neighborhoods, and 43 percent will research mortgage options. Overall, the survey demonstrated that Latinas are a critical influencer in the decision to purchase a home and in the actual home-buying transaction process.



Between 2003 and 2013 Latinas raised their high school graduation rate by more than **14 percentage points**.



Latinas own more than one million businesses in the U.S. or **10% of all women-owned firms** in the U.S.

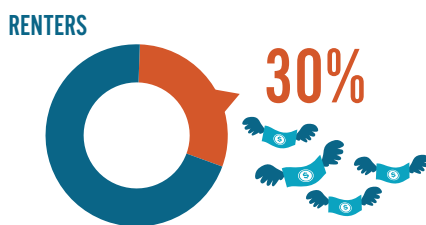
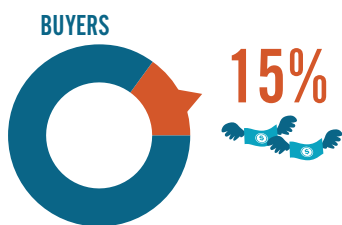


Between 2004 & 2014, Latinas made greater progress in earnings than all other women

CONCLUSION

Despite considerable challenges in credit access and a limited availability of affordable homes for sale, Hispanics achieved the strongest homeownership gains in a decade and seemed to break away from the pack. While overall homeownership trended downward, Hispanics experienced a substantial net gain. Hispanics also represent the country's largest segment of household formation growth. For these two data points to co-exist simultaneously is remarkable.

Early in 2015, Zillow data showed that buying a home was more affordable than renting in urban areas. According to Zillow estimates, median-income buyers could expect to use about 15 percent of their income on a mortgage payment, compared to a 30 percent cost burden for renters.⁴¹



According to Zillow estimates, median-income buyers could expect to spend **about 15%** of their income on a mortgage payment compared to renters who spend **about 30%**

The areas of the country where the most substantial household growth is taking place are also noteworthy. Nearly half of the overall increase in household formations occurred in the Midwest, Northwest, and the South. Driven by affordability, this trend is consistent with overall Hispanic homeownership growth where more significant gains also occurred in those markets.

Because homeownership remains the primary vehicle for Hispanics to build wealth, **it is vital to provide opportunities to keep home buying within their reach and capacity.** The GSEs have begun to implement programs such as Fannie Mae's HomeReady, which enables some flexibility in debt-to-income ratios for creditworthy buyers and allows for down-payment funds from non-occupant or occupant co-borrowers. **Currently, 25 percent of Hispanics with mortgages are multigenerational, extended-income households with one or more adults having combined income equal to at least 30 percent of that of the borrower(s).**⁴² Programs like these begin to address the underwriting nuances of the Latino consumer segment. However, without additional efforts to address affordability concerns with the costs of financing, programs like these may be ineffective and fail.

The geography of Hispanic household growth is also an underlying factor complicating additional homeownership growth. Culturally competent real estate and mortgage professionals are relatively accessible in markets such as California and Florida but are in much shorter supply in other markets where the Hispanic population is growing fastest. As more housing supply becomes available and opportunistic investors begin to exit the market, this concern, coupled with continued issues with access to affordable mortgage credit, will present substantial challenges to the housing market if not addressed.

END NOTES

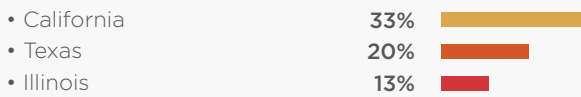
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APPENDIX

NAHREP Member Survey

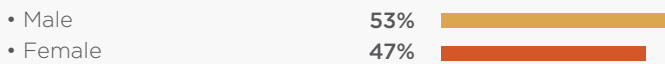
The member survey was distributed to 821 top producing NAHREP members with an approximate 10 percent response rate.

1. Respondent composition:

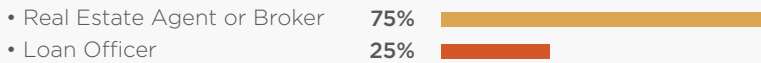


The remainder were distributed across: Arizona, Florida, Iowa, Minnesota, Mississippi, Nevada, New Jersey, New York, Tennessee, Virginia, and Washington.

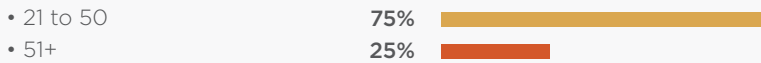
2. Gender



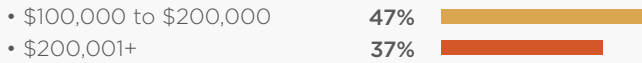
3. Profession



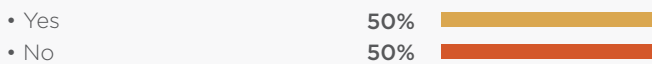
4. Total transactions closed per year



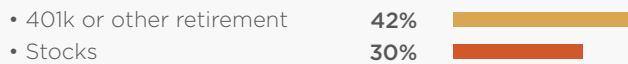
5. Income in 2015



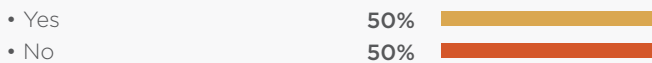
6. Do you have investments outside of Real Estate?



If yes, what kind?



7. Are you a small business owner?



8. One quarter of respondents indicated 20 percent or more of their clients purchased a home as a multigenerational family.

9. 32 percent of respondents indicated more than half of their clients had less than 5 percent down payment.

10. 38 percent of respondents indicated more than half of their clients required Spanish as a main language in the home purchase transaction.

11. 85 percent of respondents saw an increase in the number of Millennial home buyers with whom they work.

12. 68 percent of respondents said that a majority of their clients used FHA.

13. 87 percent of respondents said that TRID had not caused them to lose a transaction.

14. 80 percent of respondents said that TRID had not made it more difficult to qualify for a loan.

NAHREP[®]
2016
POLICY
POSITIONS



Overview

With more than 20,000 members and 35 chapters, the National Association of Hispanic Real Estate Professionals® (NAHREP®) is one of the nation's largest Hispanic business organizations. Annually it reevaluates its position on a number of key policy issues which have a direct impact on the Association's ability to accomplish its mission. The 2015 Call to Action urged Fannie Mae and Freddie Mac to implement affordable housing goals for 2015 – 2017. This successfully took place in August 2015.

In 2016, access to affordable mortgage credit is of such critical near-term importance that NAHREP is compelled to issue this Call to Action to regulators and policymakers. An executive summary of NAHREP's Call to Action and Policy Priorities are provided below:

2016 CALL TO ACTION

IMPROVE ACCESS TO AFFORDABLE MORTGAGE CREDIT

Narrow definitions of creditworthiness make it especially difficult for minority and first-time borrowers to qualify for and obtain a mortgage. Government regulators should address market factors that are restricting access to credit for minority borrowers.

POLICY PRIORITY

ADDRESS UNINTENDED CONSEQUENCES OF RULEMAKING

In late 2015, the Consumer Financial Protection Bureau (CFPB) implemented "Know Before You Owe" or, as the industry knows it, TRID (TILA-RESPA Integrated Disclosure). While well intentioned, the implementation of these disclosure changes has already increased the average time to close by 10 days and could have other unintended consequences.

POLICY PRIORITY

ELIMINATE GOVERNMENT PROGRAMS THAT REDUCE AVAILABLE HOUSING INVENTORY

The current national housing market is experiencing challenges with affordable housing inventory and access to single-family properties by owner occupant homebuyers. Federal Housing Authority (FHA) and government-sponsored enterprise (GSE) asset disposition programs should give advantage to owner occupant homebuyers and promote community development and opportunities to build generational wealth in Hispanic and other diverse communities.

POLICY PRIORITY

PASS COMPREHENSIVE IMMIGRATION REFORM

Congress must pass comprehensive immigration reform to provide permanent legal status to the 11.2 million undocumented individuals who already live and work in the U.S. Immigration reform is needed to allow these immigrants to fully participate in the economy, including homeownership. This reform should include provisions for addressing a road to citizenship, deportation relief, and immigrant and non-immigrant work visas.

Call to Action

Improve Access to Affordable Mortgage Credit

Overview

Since the onset of the financial crisis and mortgage meltdown, borrowers have been required to overcome increasingly stringent credit standards in order to qualify for a home loan. Narrow definitions of creditworthiness make it especially difficult for minority and first-time borrowers to qualify for and obtain a mortgage. In this environment of tight credit, government support of the mortgage market provided by the FHA, VA, USDA, and Ginnie Mae is critical in providing Hispanic consumers with access to affordable credit. The GSEs also play a crucial role in the U.S. housing finance system by facilitating a secondary market and connecting domestic and global capital to the U.S. housing finance market.

While the housing market and economy are on a path to recovery, we must protect government programs from efforts to diminish their role in the affordable housing market and seek additional avenues to improve access to affordable housing. Congress should take whatever action is necessary to ensure the government programs have the resources and support necessary to continue their affordable housing activities.

Why is this a concern?

Government regulators should address market factors that are restricting access to credit for minority borrowers.

- 1. Loan Level Price Adjustments (LLPAs) and Guarantee Fees (G-fees):** The GSEs use LLPAs and G-fees to effectively charge borrowers more for their mortgage if the GSEs think there is a higher risk of default. For instance, a borrower with a below average FICO score and a low down payment will pay a substantially higher effective interest rate for their GSE loan than will other borrowers. This approach has a disproportionately harmful impact on first time and low-income borrowers. In addition, housing market and economic conditions have improved to the point where LLPAs and G-fees are now punitively high. In early 2015, the FHA responded to improving economic conditions by reducing its annual mortgage insurance premium by 50 basis points. The GSEs have yet to follow the FHA fee decrease with a reduction in their own fees. The GSEs have a charter responsibility to “subsidize” pricing for mortgages to low-to-moderate income consumers. That does not appear to be adequately occurring.
- 2. FHA Underwriting Certification:** Enacted in 1863, the False Claims Act was intended to prevent contractors from defrauding the government and has been amended over the years to broaden its scope. In 2009, it was further amended to include some provisions for addressing financial institution and securities fraud. As a result, the Department of Justice began to levy penalties against mortgage lenders that are disproportionate to the minor underwriting errors under scrutiny, suggesting the companies are defrauding the U.S. Government. Lenders have asked FHA for definitive guidance regarding what constitutes a violation in FHA Certification so that they can operate within set guidelines, however the FHA has not indicated they are willing to do so. In the absence of this clarity, banks have begun to exit the FHA lending space. Some depository institutions can potentially create portfolio loans to continue lending to consumers who would otherwise have used an FHA loan. This is not an option for non-bank lenders, who increasingly serve Hispanic consumers, and will simply exit the market under the weight of hefty fines.
- 3. Credit Scoring of Consumers:** Traditional credit scoring models, like the widely used Fair Isaac Corporation (FICO) model, produce individual borrower credit scores that help lenders and investors determine if a borrower is a good risk and at what price. A 2015 study by the CFPB noted that 27 percent of the Hispanic consumer population is not accurately rated by the predominant credit scoring mechanisms used in the U.S. today and thus are prohibited from access to credit. Traditional models generally do not capture transactions outside the conventional banking payment systems. This omission puts “unbanked,” “unscorable,” and “credit invisible” borrowers at a disadvantage, since their good payment history using cash transactions is not considered in their credit score.

NAHREP Policy Recommendations:

- **Eliminate LLPAs:** Fannie Mae and Freddie Mac should eliminate LLPAs to better reflect the credit risk that is covered by mortgage insurance on low down-payment mortgages. When these risk-reducing benefits are not factored into the G-fees, the consumer is effectively charged twice for the same risk reduction.
- **Increase cross-subsidization:** GSEs should also introduce more cross-subsidization into the G-fee structure, given the unfair impact of imperfect credit scoring models, the strong credit performance of their mortgages, and their affordable housing mission.
- **FHA Certification Guidance:** FHA should issue definitive guidance regarding FHA Certification and what issues are material and could cause a violation. Offering this conclusive direction would enable lenders to loosen credit with the added confidence that they will not face steep fines from the Department of Justice if they comply with those guidelines.
- **Alternative credit scoring models:** Alternatives to traditional models in use today could provide for additional extension of credit to millions of consumers in a safe and sustainable manner. Entities extending credit should be required to use best in class credit evaluation tools that score a broader spectrum of consumers and are determined to be safe, sound, fair, and responsible.

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Policy Priority

Address Unintended Consequences of Rulemaking

Overview

In October 2015, the CFPB implemented TILA-RESPA Integrated Disclosure (TRID) rule changes. These changes create a three-day period where the home buyer is allowed to review the disclosures. Early feedback from lenders expressed concerns that these changes could delay the time to close a mortgage loan. While a recent report from Ellie Mae indicates that the time to close has indeed increased by ten days over mortgage loan closings this time last year, practitioner feedback would indicate that these concerns may not be as significant a factor as originally anticipated. In a NAHREP survey of top producing agents, 87 percent of respondents indicated that TRID had not been a significant factor or caused them to lose a transaction.

However, there are real risks to consumers from downstream impacts of TRID. The regulatory changes introduce new disclosures into an environment already heavily laden with disclosures. Lenders note understandable concern at their ability to sell a loan in the secondary market if there is a minor error made on a disclosure. This could result in lenders selling loans for “scratch and dent” prices at a fraction of the origination value. This creates additional costs for the lender, which will likely be passed on to the consumer, further increasing the cost of financing.

Additionally, concerns still exist with lack of clarity on Ability to Repay (ATR) guidelines for non-Qualified Mortgage (non-QM) loans. For example, the rules are clear regarding debt to income ratios for QM loans. However, for non-QM loans, the guidelines are nebulous, suggesting that lenders use reasonable due diligence in determining a borrower’s ability to repay. In the face of this ambiguity, lenders have taken a conservative approach which has resulted in very little non-QM lending other than that which occurs in the Jumbo space.

Why is this a concern?

While rulemaking efforts by the CFPB are welcomed by the industry, the lack of clarity or willingness to provide clarity has made lenders reluctant to issue loans for fear of regulatory action. This unease has resulted in application of credit overlays by lenders, which further tightens credit for otherwise credit worthy borrowers.

Lenders can more effectively operate with bright lines and easy-to-understand rules. The CFPB should be more collaborative with mortgage lenders. Today, when lenders seek guidance from the CFPB, the response is verbal, providing little documented reassurance that the lender won’t be subject to adverse action.

One of the issues requiring clarity is regarding the use of non-traditional income, such as earnings from self-employment or temporary work. An increasing number of consumers, including Hispanics and Millennials, earn income through non-traditional means. Since ATR guidelines are unclear on how this income may be considered, a substantial number of credit-worthy borrowers are being shut out of homeownership.

NAHREP Policy Recommendations:

- **Broader Application of No Action Letters:** When lenders face uncertainty about compliance with a CFPB regulation, they should be able to seek a No Action letter from the CFPB to remove the uncertainty. The CFPB’s current policy on No Action Letters limits their use to “emerging products involving substantial regulatory uncertainty.” This very limited scope will not cover uncertainty about compliance related to the many existing products and practices in the mortgage market.



Policy Priority

Eliminate Government Policies that Reduce Available Housing Inventory

Overview

Affordable housing inventory is at record lows. With a small pool of homes for sale, rental-housing demand is on the rise with the median asking price for rent increasing 11 percent last year alone. Construction of affordable homes continues to be scarce and investors continue to edge out owner occupants across the country in purchases of existing home stock. These challenges are most evident in markets like Miami, Florida where the trend has investors purchasing more than 50 percent of available homes for sale. Traditional single-family owner occupant homebuyers are routinely passed over in favor of investors with cash offers and rapid closings, blocking many Hispanic homebuyers from access to affordable housing opportunities.

Why is this a concern?

Despite the introduction of more than three million single-family homes as rentals, vacancies remain at historic lows, further driving rental prices up. This creates a challenge for prospective homeowners who wish to save for a down payment but are spending 30 to 50 percent of their income on rent.

Single-family property disposition strategies that prioritize absentee investors disproportionately disenfranchise Hispanic homebuyers who currently represent 69 percent of the net homeownership growth in the U.S. Laws, regulations, and business practices associated with single-family property disposition programs should provide abundant opportunities for sales to owner occupants. FHA's note sales program, the Distressed Asset Stabilization Program (DASP), has sold more than 100,000 distressed mortgage loans to private investors, often subsidiaries of large Wall Street financial institutions since 2010. These sales have prevented the properties from entering the national housing inventory and being available for purchase by homebuyers.

NAHREP Policy Recommendations:

- **Asset Disposition Strategies:** FHA and the GSEs should utilize asset disposition strategies that include strong provisions designed to maximize the opportunity for owner occupants to keep or purchase a property. All loan sale programs should be periodically evaluated for effectiveness and possible further improvements.
- **Study DASP:** HUD should conduct an in-depth study on DASP to determine the program's impact on homeownership and to compare costs and results in relation to more traditional property disposition strategies, such as REO. HUD should also collect and release to the public data that provides increased transparency on the amount and types of foreclosure alternatives that investors provide.

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Policy Priority

Pass Comprehensive Immigration Reform

Overview

While the number of unauthorized immigrants in the U.S. has stabilized over the past few years, 11.2 million undocumented individuals remain in the U.S. without permanent status. This figure has remained relatively stable since 2012 and represents nearly 4 percent of the overall U.S. population. Currently, new undocumented immigration from Mexico is at a net zero. Since the vast majority of the undocumented immigrants already present in the U.S. are Hispanic, with more than 50 percent coming from Mexico, the issue is clearly something that falls within NAHREP's purview.

In a previous Congress, the Senate passed a bill for comprehensive immigration reform. Despite strong public sentiment to pass comprehensive immigration reform, a companion bill stalled in the House, became mired in partisan politics, and was never brought up for a vote. While NAHREP is generally supportive of President Obama's "Immigration Accountability Executive Action," which should provide a temporary reprieve from deportation for nearly five million undocumented individuals, these immigrants remain without permanent status and unable to fully contribute to the economy.

Why is this a concern?

Pew Research Center estimates indicate that 5.1 percent of the U.S. labor force is comprised of unauthorized immigrants. In an increasingly anti-immigrant political climate, it is important to understand that they pay taxes, purchase goods, and generate housing expenditures. However, they often must do so at a higher cost, existing in a shadow economy where they are at risk of being exploited due to their status. In fact, the Institute on Taxation and Economic Policy notes that, undocumented immigrants contributed \$11.64 billion in state and local taxes, a figure which would increase by \$2.1 billion under comprehensive immigration reform.

NAHREP has calculated that if three million undocumented immigrants were to buy homes, \$500 billion in real estate transactions and an additional \$233 billion in origination fees, real estate commissions, and related consumer spending would be generated over the next five years. These estimates are based on previous homeownership rates among foreign-born households. In 2011, for example, 52 percent of foreign-born households owned their homes. Home purchases by newly legalized immigrants would generate an additional \$180 billion in indirect consumer spending based on the average \$60,000 in associated purchases estimated by the National Association of REALTORS®.

The U.S. economy is fueled by the contributions of immigrant workers and entrepreneurs. This is evident even in the Fortune 500, where, according to the Partnership for a New American Economy, more than 40 percent of companies were founded by immigrants or children of immigrants. Increased levels of immigration are projected to help the U.S. economy, bolstering its workforce and accounting for as much as 40 percent of the increase in U.S. employment.

In the Midwest alone, the introduction of approximately one million immigrants over the past 10 years has reversed the 50-year population decline in that region. The resulting impact of immigration reform on Hispanic homeownership would be felt in states with large Hispanic populations, including California, Florida, Arizona, Nevada, New Mexico, Illinois, Texas, New York, and New Jersey. Hispanic homeownership would also significantly increase in states that have been experiencing the greatest population growth within the past decade, including North Carolina, South Carolina, Georgia, and other states in the South.

NAHREP Policy Recommendations:

NAHREP calls on Congress to pass comprehensive immigration reform, which should include provisions for addressing:

- **Deportation Relief:** Until a permanent resolution exists for the 11.2 million undocumented individuals in the U.S., deportation relief must be an active component of any executive action or piece of legislation.
- **Immigrant Visas:** Current visa caps are antiquated and do not address the backlog of legitimate requests to immigrate to the country, as well as legitimize unauthorized persons already in the country. Reforms should provide status for undocumented immigrants and address the current backlog of family and employment-based visa applications.
- **Non-immigrant visas:** Work related visas and guest worker programs should be an essential element to an overall reform package. The explicit inclusion of legal residency would enable qualification for various financial instruments, including mortgages, further aiding the housing recovery.
- **Road to Citizenship:** A permanent solution for those who seek status and choose to become a U.S citizen.



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