

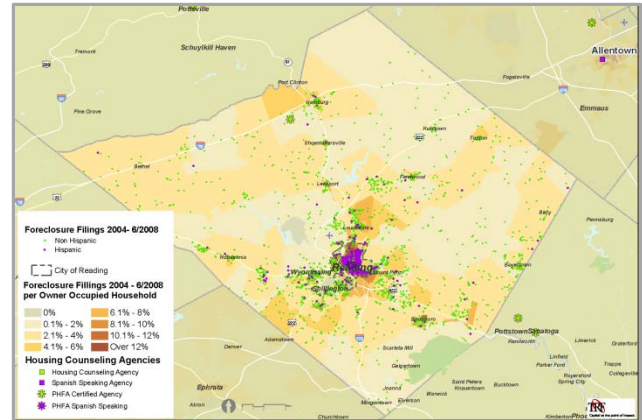
# Impacts of Changes in the Home Mortgage market on Hispanic Homeowners in Pennsylvania and Delaware

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## Executive Summary:

This report examines how Hispanic homeowners in the FHLB and PHFA market areas have been impacted by the downturn in the real estate and mortgage markets. Where possible, comparisons were drawn between Hispanic, Black and White homeowners. The comparisons suggest that Hispanic homeowners typically fare worse than White homeowners, but more or less equal to Black homeowners (depending upon the locale being evaluated); in some locales, Black homeowners have been more adversely affected than Hispanics while in others, Hispanics fared worse.

What we know is that Hispanics are affected by many of the same factors as homeowners of other races and ethnicities: (1) expensive and “exotic” subprime loans; (2) a decline in the value of homes; (3) layoffs and loss of income; (4) unexpected medical expenses; (5) marital disruption; (6) loans that carried terms such as adjustable rates, balloons, and other unsustainable features. We also know that the representation of Hispanics among those in foreclosure in Berks, Lancaster, Lehigh, Northampton and Philadelphia counties exceeds their representation among homeowners; in New Castle the representations is similar to what one might expect. We also know that as the Hispanic population in these market areas tends to be a residentially segregated population, the spatial clustering of mortgage foreclosures on homes owned by Hispanics



adversely affects not only those Hispanic households in foreclosure but those (Hispanic and not Hispanic) who live in close proximity.

Among the specific findings of this report are:

- The cities of Reading and Allentown have large and fast-growing Hispanic populations – more than doubling since 1990. Philadelphia has the largest Hispanic population in the study area, and it too is growing quickly, but not as quickly as the aforementioned cities.
- As a percent of the population, Hispanics in Reading (50%), Allentown (35%) and Lancaster City (32%) constitute the greatest concentrations in the study area.
- Owner-occupancy rates of Hispanics lag those of Whites in all parts of the study area. In fact, there is no city or county in the study area where more than 50% of Hispanics own their homes.
- Hispanic families and households have lower incomes than White and Black families/households in all parts of the study area.
- Black and Hispanic unemployment rates, like those of Whites, have trended up



recently. In Pennsylvania, at the end of 2008, the Hispanic unemployment rate (13.8%) vastly exceeded that of both Black (8.8%) and White (4.9%) labor force participants. In Delaware, Hispanics (6.3%) fared better than Blacks but worse than Whites. In the cities and counties of interest, Hispanic unemployment always exceeds that of Whites and depending upon the locale, is higher or lower than the unemployment rate for Black labor force participants. Given what we know of employment as one of the contemporary drivers of mortgage delinquency and default, this is a key indicator to track.

- The likelihood that a Hispanic applicant for a purchase or refinance mortgage will be denied invariably exceeds that of White applicants and is typically about equal to (or less than) that of Black applicants. Hispanics are more likely than Whites or Blacks to be seeking loans to purchase a home rather than refinance an existing mortgage.
- Hispanics are more highly leveraged than non-Hispanics. This is measured by the larger loan amounts in relation to income levels. In some large percentage of cases, the extent to which loans exceed a reasonable ratio of income is so great as to raise serious concerns about short and long-term sustainability.
- Hispanics are invariably more likely to get higher-priced loans than Whites; Hispanics are less (or about equally) likely to get those loans when compared to Black applicants.
- Applications to the HEMAP program have increased over time. The growth in the number of Hispanic applicants is

roughly comparable to the total application growth.

- There appears to be no pattern related to race/ethnicity as to whether Hispanics will be approved for HEMAP assistance. Moreover, the approval rate of Hispanic applicants seems to have grown at a faster rate over the last several years than it has for White or Black applicants.
- Presented reasons for why HEMAP assistance is needed by Hispanics do not vary dramatically from those presented by White or Black applicants. Typically, the loss of a job (or income), medical expenses or marital disruption impact all applicants to the HEMAP program in roughly equal proportions. There is however some variability by locale.
- In each of our study counties except New Castle, the percent of owners that is Hispanic is exceeded by the percent of foreclosures that we attribute to Hispanic owners; in some instances those differences are great (e.g., Lehigh and Lancaster) while in others, the differences are much less pronounced (Philadelphia).
- Like mortgage applications, the percent of Hispanics facing foreclosure for delinquency on a purchase money mortgage is greater than it is for persons who are not Hispanic. In some locales, these differences are moderating somewhat over time.
- Hispanics facing foreclosure are less likely to have conventional loans – meaning that a larger percentage are facing foreclosure on a government insured (i.e., FHA or VA) home mortgage. Over time, the difference between owners that are



Hispanic and those that are not, is declining.

- ARMs and balloon loans are an increasing problem for Hispanic owners facing foreclosure – as they are for owners who are not Hispanic. In some places though (e.g., Philadelphia) the growth for Hispanics is dramatic.
- The spatial concentration of mortgage delinquency tends to be greater in areas throughout the study cities and counties with larger Hispanic concentrations. The pattern is however not invariant, meaning that there are areas with relatively small Hispanic concentrations where delinquency is heavily concentrated. That said, as a general statement, it is fair to say that Hispanic areas have higher (and growing) levels of mortgage delinquency.
- Access to housing counseling in urban areas is greater than it is in suburban/rural areas. In Lehigh, Lancaster and Northampton counties, this is especially difficult – especially for owners who need access to PHFA-approved HEMAP counselors that can provide service in Spanish.
- Generally speaking, counseling agencies report a growth in the number of foreclosure cases they are seeing over the last several years. And agencies that serve Spanish-speaking clients generally do not report any substantial differences in the presenting problems between their clients who are Hispanic and those who are not. These agencies report offering a wide variety of counseling services – although few report being able to provide assistance based on Fair Housing issues.

- As we observed with the HEMAP data, the issues of job loss/loss of income are predominant among people seeking help from counselors for foreclosure. Counselors do however report that ARM adjusts are a prevalent problem among clients.
- Following up on the counselor survey, TRF conducted a more limited mystery shopper review of counseling services in order to learn what a Spanish-speaking person facing foreclosure might experience when seeking counseling. The results suggest that while counselors may technically offer service to a Spanish-speaking population, in actuality, for those who speak only Spanish, accessing counseling is difficult. Moreover, it appears that the wait for service is likely two to three times as long if a client must (or prefers to) receive counseling in Spanish.

#### Recommendations:

HEMAP is a program with an enviable and nationally recognized track record. HEMAP provides funding to thousands of Pennsylvanians each year – approximately 5% of whom are Hispanic. The data suggest that there is likely room to enhance participation among Hispanic owners facing foreclosure and that is done through vigorous and targeted outreach and counseling agencies that can work with Hispanic clients.

Allentown/Lehigh County stick out as places where the level of foreclosure impact on the Hispanic owners is vastly greater than one might expect. This is likely related to the economic factors of higher subprime borrowing rates, increased use of ARMs and other “exotic” loan products, leverage ratios and elevated unemployment rates. It may also be related to the



relatively difficult access to counseling. And finally, this may be related to discrimination in the lending process itself. We recommend a closer look at predatory/abusive lending practices and especially those in which there is some connection to the ethnicity of the borrower. The US Attorney for the Eastern District of Pennsylvania has been active in this region; an affirmative effort by the Department of Banking, the Pennsylvania Human Relations Commission, HUD and/or private fair housing organizations is warranted. Paired testing as a means of identifying issues in the home buying process may be useful in ferreting out discriminatory processes that adversely impact Hispanics.

There is a need for more and better counseling throughout the footprint. Acknowledging the limitations of the mystery shopper effort, it did however highlight the difference between what some agencies say they do and what they actually do – and that does not speak to how well they deliver the services. We therefore propose a reexamination of training and an upgraded monitoring effort of agencies especially as it relates to the quality and language accessibility of their services. We also recommend advocating to HUD, on behalf of Pennsylvanians and Delawareans, to examine those same counseling quality issues among the HUD certified training agencies.

There is now a plethora of refinancing options for people; it is reminiscent of the years when prescription drug coverage plans were changing and consumers were having significant difficulty making informed decisions about their many options. It is vitally important that people make good, informed decisions about their mortgage options. To do this, a ready, willing and informed cadre of housing counselors – capable of providing assistance in multiple languages – is critical. The data in this study (and other such studies) suggest that a significant effort to create such a group (likely out of the existing agencies) to reach out to homeowners in the states of

Pennsylvania and Delaware to help them make sound decisions could be quite helpful.

As there will undoubtedly be people who lose their home through foreclosure, it is important to recognize that starting anew as renters will not be easy. Firstly, in many markets there is not a sufficient supply of rental housing. Secondly, the people losing homes through foreclosure will have damaged credit and likely inadequate savings for first and last month's rent and/or security deposits. Thirdly, the unit sizes that these families will need will undoubtedly be on the larger side – a uniquely tight rental market. Lastly, studies show that Hispanics face high levels of discrimination in seeking rental housing.<sup>1</sup> Again, paired fair housing testing especially in the Allentown/Lehigh County area might prove useful.

These things, taken together should prompt us to focus on ensuring that there is an ample supply of accessible and affordable rental housing for those people losing their homes through foreclosure. Both the FHLB and PHFA are active participants in the financing of this housing stock; a review of priorities and allocation strategies for funding should be undertaken.

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<sup>1</sup> See, for example HUD's "Discrimination in Metropolitan Housing Markets: National Results from Phase I HDS" published in 2002. [http://www.huduser.org/Publications/pdf/Phase1\\_Report.pdf](http://www.huduser.org/Publications/pdf/Phase1_Report.pdf)

A copy of the complete study and this Executive Summary may be obtained from:

[www.trfund.com](http://www.trfund.com)

