

Hispanic Homeownership Gains at Risk

The subprime mortgage saga spells a setback for a generation of minority homeowners. Reports have confirmed that minorities, and Hispanics in particular, will bear the biggest burden of the losses.

As lawmakers weigh reforms and rescue programs, it's clear that immediate action must be taken to curb foreclosures that otherwise would rewrite the future for Hispanic homeowners and the broader underserved market.

The disproportionate impact is evidenced in the latest foreclosure data. Twenty-four of the cities with the largest Hispanic populations are also the ones most affected. Hispanics have taken out 40% of all subprime loans, in part because of limited access to sound financial counseling, limited income, and a lack of alternative products. Many of these homeowners now owe more on their homes than they are worth.

Sixty-five percent of the members of my organization, the National Association of Hispanic Real Estate Professionals, who responded to a poll this year said they are counseling homeowners who are in this circumstance and

cannot afford their mortgages.

Those of us who are deeply entrenched in the Latino community know all too well how this trend will change the financial future for families. History says that it takes a homeowner an average of 10 years to recover from a foreclosure and buy another home. The process may take even longer for Latinos, given their innate distrust of the banking system and their lack of knowledge about the real estate process. These are hard lessons to learn.

In the end, this trend will remove Hispanics from the homebuyer base at a time when they were finally starting to make gains.

If lawmakers want to deliver help where it's needed most, they must direct reforms and financial support back to the states, neighborhoods, and homeowners with the highest risks and losses. Wall Street investors and many banks skillfully buffered losses in their profit equations through risk-based pricing, ensuring that they will endure. Homeowners were not so lucky.

Lawmakers, regulators, financial institutions, and the government-sponsored enterprises must take

swift action to:

Enact a comprehensive rescue strategy. Create rescue loans and tax relief for homeowners on the brink of foreclosure, and provide packaged programs that give first-time homebuyers incentives or breaks to move in and rehabilitate foreclosed properties.

This is particularly crucial in minority neighborhoods, where vacant homes will erode housing values for other homeowners, spark crime, and send the community spiraling. Community-based nonprofits could play a key role in this effort.

Impose strict guidelines. These should include disclosure guidelines that require a summary of all fees and revenue paid to any parties through the loan process.

Also, banks and mortgage companies should be required to follow guidelines similar to what the Federal Housing Administration requires of its approved originators, which are limited to "brick-and-mortar" brokers with established track records.

Sanction federal licensing and testing standards for all originators. Enforced at the state level, these

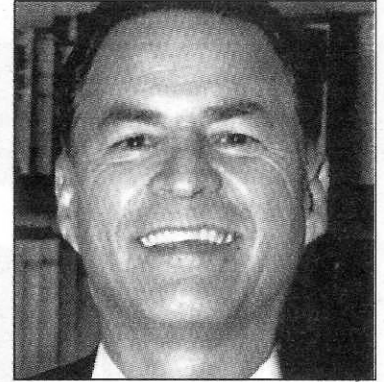
reforms should be introduced first in foreclosure markets with indications of fraud.

Cap originator compensation. Sixty-nine percent of my group's members who responded to a survey this year favored capping broker compensation, with the majority supporting a cap of 2-3%.

Reform and strengthen the FHA. Subprime lending became a niche only because programs offered by the FHA, Fannie Mae, Freddie Mac, and prime lenders have not adequately served first-time homebuyers and the refinancing market.

Last year Congress failed to pass FHA reform legislation that would have provided sustainable lending products as an alternative to higher-cost subprime loans. The lawmakers' inaction will cost Latino homeowners billions in lost equity as a result of foreclosure. The stakes are too high to let another year pass without action on this legislation.

Require the GSEs to get back to the basics of their charter. Fannie and Freddie have had little impact in the low- and moderate-income homebuyer markets, because of inadequate consumer outreach



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and the lack of lender incentives for selling these types of loans.

The GSEs also have been slow to embrace automated models that underwrite loans to consumers with nontraditional credit practices and "thin files," including many Hispanics.

Finally, we must create an environment that offers something for the next wave of homebuyers. More than 2 million Hispanic families are expected to buy homes between now and the close of the decade. It's up to lawmakers and the industry to assure them that this dream is still within their reach.

Mr. DeHerrera is the chairman of the National Association of Hispanic Real Estate Professionals.